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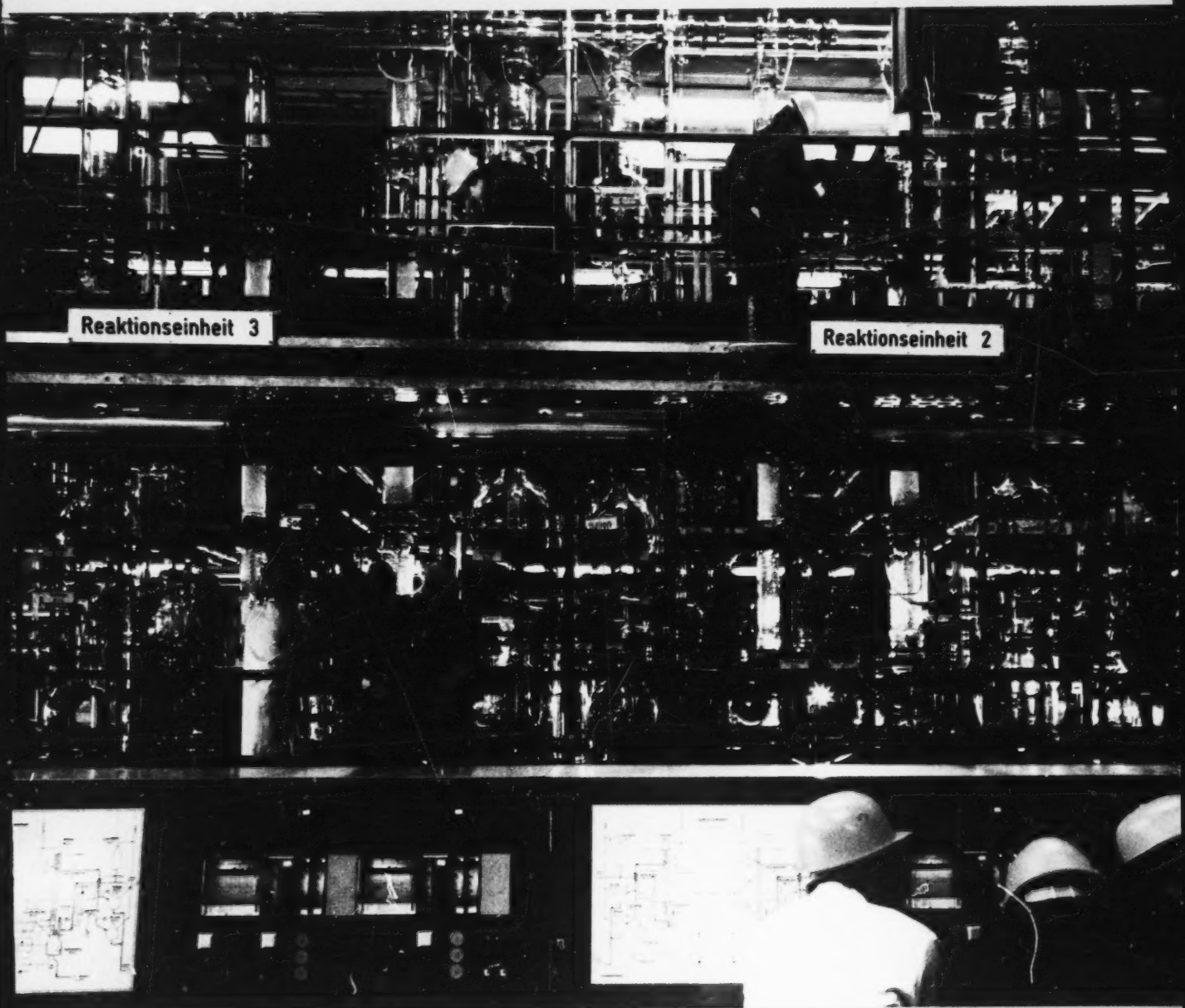
GATN
German-American Trade News

SEPTEMBER—OCTOBER 1979



German Chemicals in a Profits Upswing

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It's reassuring to know the Mercedes-Benz 240D can take you farther on a tank of fuel than any other car sold in America

On the one hand, it is pure Mercedes-Benz – with all the quality and integrity the name implies. On the other, the 240 Diesel costs $5,000 less than any other Mercedes-Benz – and can take you *633* miles on a single fill-up. Read how the 240 D can gratify both your pocketbook and your love of fine cars.

Relentless efficiency is the Mercedes-Benz 240 D's mission in life. From its stouthearted Diesel engine to its four-speed manual transmission to its wind-cheating, aerodynamically "clean" body shape, it is an enemy of waste in all its forms.

But what sets the 240 D apart is the fact that these efficiencies are rendered by a solid, 1½-ton automobile that doesn't look or feel like any "economy" car you have ever known.

No corners cut

Certain costlier Mercedes-Benz sedans sit on a 110-inch wheelbase and share a body shell notable for the spaciousness of its interior and its trunk. That same wheelbase, that same body form the basis of the 240 D.

It is full-blooded Mercedes-Benz in its technical advances too. The fully independent suspension, four-wheel disc brakes and superb power steering system fitted to those costlier sedans are also fitted to the 240 D. As are power brakes, a central vacuum locking system, even a quartz-crystal chronometer. And every painstaking step of workmanship and finish that those other models undergo, the 240 D undergoes.

What's in a bread box?

Consider the mechanical heart of the 240 D. It is a four-cylinder Diesel engine whose 146.4 cubic inches of displacement would barely fill the average bread box. But what feats the engineers make it perform:

- It is strong enough to propel this substantial automobile along hour after hour at American highway speeds, yet so finely balanced that you cruise along at 55 mph without a hint of Diesel vibration or "knock."
- It can be driven for thousands upon thousands of miles without needing a conventional tune-up. Most engine parts that would need to be tuned up aren't there: no carburetor, no spark plugs, no distributor, no points.
- It runs on Diesel fuel, still America's cheapest automobile energy source. And despite its 1½ tons, it delivers an estimated *thirty miles per gallon*. This is the EPA estimate for a 240 D equipped with a 4-speed manual transmission. *Remember: Compare* this *estimate* to the 'estimated mpg' of other cars. You may get different mileage, depending on how fast you drive, weather conditions, and trip length.

This mileage and a 21.1-gallon tank create a driving range so vast that it is possible to go from New York to Washington, sightsee, then turn around and go back to New York again – all on a single fill-up.

Efficiency is standard

The 240 D's four-speed manual shift and its lack of power accessories both reduce initial cost and increase running efficiency. But if this seems a touch too austere – if you choose the comforts of air conditioning and electric windows and automatic transmission over the economies created by their absence – you can order them as extra-cost options. You will still be driving a frugal-hearted car.

120 safety features

In your 240 D, the doors are a safety feature. The steering column and wheel are safety features. The glove-box door lock is a safety feature. Even the profile of the taillight lenses is a safety feature – designed to help swirl slush or mud away in the airstream as the car moves along, keeping your brake lights visible to following traffic.

Satisfying sensations

The 240 D is a richly satisfying car to drive because it is intelligently engineered down to the fine points.

One fine point is zero-offset steering geometry. Simply put, it helps the car maintain a straight line even as you thunder over potholes. Another is the shock absorber fitted into the steering mechanism, to blot up thumps that might otherwise jar your hands on the wheel.

Unrivaled resale value

There are some things that the 240 D *cannot* do. For instance, it cannot depreciate drastically in value overnight.

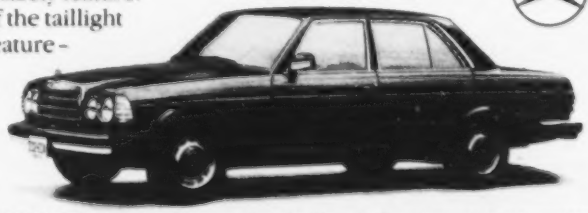
The happy fact is that, over the past five years, Mercedes-Benz 240 D Sedans have been shown to retain over *80 percent* of their original value.

A Diesel down to its soul

Finally, the 240 D comes from the company that has spent more years building Diesel automobiles and has built more of them (two million and climbing) than any other company in the world.

Mercedes-Benz sees significant differences between a Diesel car and a car with a Diesel engine. The 240 D is designed as a Diesel to the core, its every major component matched to the unique demands of Diesel operation.

In sum, the 240 D is for people who are seriously concerned with driving efficiency. And Mercedes-Benz has been seriously concerned with building Diesel cars, not for four years or so but four decades or so.



The 240D can take you 633 miles on a single fill-up.

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German-American Trade News

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The **German American Trade News** is published bi-monthly by the German American Chamber of Commerce, Inc., 666 Fifth Avenue, New York, New York 10019, and also in Chicago, Houston, Los Angeles, San Francisco, and Washington, D.C. Subscriptions in the United States and Canada $5 per year, $12 for 3 years. Other countries $7 and $18 respectively. Overseas airmail $15 for one year. Single copy price $1. For change of address, please give old as well as new address, including zip code (if possible, enclose address label from magazine). Allow one month for change. Published by World Composition Services, Inc., 432 Park Ave. So., New York, N.Y. 10016. Controlled circulation paid at New York, N.Y.

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Chamber Commentary

Winter of our discontent?

With the recent appointment of Paul Volcker as Chairman of the Federal Reserve, the economic and monetary policies of the North Atlantic's four major industrial powers are being simultaneously guided by conservative disciplinarians: following at some distance on the heels of Britain's Conservative Party victory last spring, the square has been completed.

Apart from offering some tangible confirmation of the growing suspicion by electorates of libertarian panaceas for the achievement of general economic prosperity and security, this new constellation also provides some illusion of comfort to those who see coordination as a key element in confronting the challenges ahead. This perception is, unfortunately, imperfect. Each of the four major democracies faces special and unique problems in the upcoming months.

Although President Carter has described the energy crisis as "the moral equivalent of war", the contemporary economic malaise, unlike energy or war, appears to be largely a struggle with the enemy within. This interpretation derives mainly from the fact that it has been with us for most of the decade, i.e., before the cartelization of oil prices.

It is now generally agreed in the United States, Great Britain, France, and the Federal Republic that inflation is the prime catalyst of our economic woes. Summoning commendable political courage, French Prime Minister Barre, Germany's Chancellor Schmidt and Great Britain's Thatcher insist that their economies can regain the health and momentum of the 1960's only by reducing government interference in the economy and pruning inefficient industries to encourage new and more advanced ones that will create the jobs and prosperity of the future.

For his part, Mr. Volcker told the House Budget Committee in September that the Federal Reserve is attempting to deal with the "clear and present fact of inflation" by throttling back on monetary growth, arguing that the latter had been excessive in recent months. Ironically, by Carter's implicit conversion to a more conservative monetary stance, the President is assuming the risk of inviting European criticism that a severe recession in the United States will threaten the success of their own austerity programs. Alas, in an imperfect world, coordination reveals itself to be an imperfect strategy.

More to the point, the basic approaches appear to be sound. Given the fact that there is no near-term prospect of exorcising the devil of exorbitant energy prices, each nation will have to address the near and present enemy within by those means which it considers most prudent and orderly. With elections looming on the 1980 horizon in both the United States and Germany, this winter is likely to test the mettle of both the leaders and the electorate in pursuing policies of economic catharsis.

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Trade Fairs

COLOGNE

International Men's Fashion Week, August 24–26

A group of leading American tailored men's wear producers, headed by the Clothing Manufacturers Association of New York, selected the International Men's Fashion Week in Cologne as the point of departure for its first-all-out European export initiative. Under a special export promotion grant administered by the Office of International Trade of the Department of Commerce, famous name brands such as After Six, Botany 500, Palm Beach Co., Greif & Co., Phoenix Clothes and others, were displayed for the first time to an audience of some 30,000 trade visitors. The August International Men's Fashion Week was a jubilee event, celebrating 25 years of successful shows. A record number of over 1,000 exhibitors took part in the show.

ANUGA '79:
The World Market for the Food Industry,
September 8–13

The U.S. Food and Beverage Industry, with a special grant from the U.S. Department of Agriculture, and with the organizational assistance of the German American Chamber of Commerce staged its largest exhibit in many years at ANUGA '79. Forty-five exhibitors, individual producers, agricultural state development boards and multi-state export promotion councils brought together a total of over 100 American exporters of agricultural products. The variety of products displayed at the American Pavilion in Hall 3 demonstrated the diversity of demand: Iceberg lettuce from California, citrus juices from Florida and Texas, popcorn and hot sauces from Louisiana, canned and freeze dried fruits and vegatables from Oregon, turkey meat from New York State, pie fillings and preserves from New Jersey, and corn and cereal products from the mills in the Midwest, made up just part of the entire U.S. exhibit.

In addition, a U.S. industry group exhibit of some ten manufacturers of food processing machinery, packaging and marking equipment, freezers and refrigerators, portion control equipment and other products was present at the "technica" and "gastroma" sections of ANUGA.

The 21st SPOGA:
September 22–25

The international trade show for Sporting Goods, Camping Equipment and Garden Furniture again included a joint exhibit of American Sporting Goods Manufacturers on the first floor of Hall 3. It served as an example of the growing importance of exports for medium-sized manufacturers. The 30 firms participating in this display exhibited roller skates, athletic and fitness equipment, sport and track shoes, sportswear, mountaineering and backpacking equipment and supplies, sub-aqua articles, camping and fishing supplies, stop watches and digital timing devices, etc.

International Trade Fairs and Expositions in Cologne 1980

January 15–20
International Furniture Show
January 28–February 1
ISM International Confectionery Show
February 6–9
Domotechnica International Home Appliances Show
February 7–10
International Housewares Show
February 9–12
International Hardware Show
February 22–24
International Men's Fashion Week
March 7–9
International Fair for Children and Young People
April 24–27
"handcrafts 80"
May 10–13
OPTICA 1980 International Fair for Optics and Optometrics with Congress
August 29–31
International Men's Fashion Week
September 12–18
photokina International Trade Show photo - cine - audiovision
September 20–23
IFMA International Motorcycle and Bicycle Trade Show
September 27–30
SPOGA International Trade Fair for Sporting Goods, Camping Equipment and Garden Furniture
September 28–30
International Garden Trade Fair
October 10–12
International Fair for Children & Young People
October 21–26
ORGATECHNIK International Office Equipment and Supplies Trade Show

(Dates subject to change)

DUSSELDORF

The ever increasing importance of environmental protection technology, worldwide, is the primary reason why ENVITEC, International Trade Fair and Congress - Engineering in Environmental Protection - has become a central event for the key industries involved in pollution control. From February 11-15, 1980 the third ENVITEC trade show will take place in Dusseldorf, West Germany.

ENVITEC '80 will be the largest and most comprehensive exhibition of environmental technology ever presented at one location. It will encompass all aspects of industrial, community, national and international involvement in pollution control and energy consumption.

Over 500 exhibitors and 30,000 visitors will represent virtually every industrialized nation of the world. ENVITEC '80 will feature displays of technology for water and air pollution control, noise abatement, solid waste disposal, radioactive waste disposal, toxic gas and emissions control, chemical and plant waste treatment, environmental health, plant safety, energy conservation, research techniques and processes, measuring and monitoring systems and devices.

ENVITEC '80 will also include an International Congress entitled "Energy and the Environment," where leading authorities from Germany and abroad will present up-to-date technology and know-how and will demonstrate case histories in environmental protection and energy conservation. In addition, specialized exhibitor seminars will be held on specific environmental and energy topics. An Environmental Info-Center will be set up where detailed information from all over the world will be distributed. The Info-Center will also conduct discussions and direct exchanges between visitors and leading environmental experts.

FRANKFURT

More than 800 exhibitors from 27 countries are expected at the 42nd Interstoff Trade Fair from November 20-23, 1979 in Frankfurt am Main. The Frankfurt Trade Fair for Clothing Textiles will present the fabric manufacturers' latest fall and winter fashion ideas for 1980. The four "classic" European textile countries—France, Great Britain, Italy and the Federal Republic of Germany—will again be the most strongly represented exhibiting nations at the upcoming Interstoff.

Also represented, with between 10 and 35 exhibitors each, will be: Austria, Belgium, Denmark, Ireland, the Netherlands, Spain, Switzerland and the U.S.A. Other exhibitors will arrive from Canada, China, Czechoslovakia, Finland, Greece, Hungary, Israel, Japan, Norway, Poland, Portugal, Sweden, Turkey and the USSR.

In response to the numerous wishes expressed by exhibitors and buyers, the Frankfurt Trade Fair Corporation will, beginning in 1980, schedule the Interstoff show one week earlier than hitherto. This will allow for certain shifts in the sampling cycles of the textile and clothing sector, while avoiding an abrupt change in ordering plans which have for years been based on the Interstoff dates.

Future dates for Interstoff are thus as follows:

42nd Interstoff	20 - 23 Nov. 1979
43rd Interstoff	13 - 16 May 1980
44th Interstoff	4 - 7 Nov. 1980
45th Interstoff	5 - 8 May 1981
46th Interstoff	3 - 6 Nov. 1981

MUNICH

The first six months of the 75th jubilee for the Munich Fair Authority established a variety of milestones for the Bavarian capital, one of Germany's foremost trade fair cities.

More than 1.1 million visitors from 78 nations around the world were registered at ten international and national presentations between the first of the year and July 6, when the biennial LASER conference and exhibition closed a succussful run. The proportion of foreign visitors climbed to 19 per cent, while the statistics on exhibitors show more than 7,700 firms from 64 countries, and a 36 percent share from outside Germany.

Contributing to the half-year totals were the following events: HUNGARY '79, a kaleidoscope of the Hungarian economy, which drew 110,000 visitors; Caravan Boat/International Travel Market, attracting over 156,000 people to the fairgrounds; INHORGENTA, the jewelry exhibition, with a 42 per cent increase in trade buyers to 14,000; ISPO, the sporting goods show, observing its 10-year jubilee, which greeted 24,000 trade visitors, and the 31st annual Handicrafts Fair, that opened its doors to an all-time record 440,000 attendance.

Other early 1979 events included the spring Fashion Week, with its 1,800 exhibitors and over 43,000 buyers; the German Surgical Association meeting that attracted 3,000 surgeons; the Buero 79 exhibition for office equipment, offering 20,000 visitors a panoply of new machines and devices; "dentechnica" for technicians in the dentistry field, with an outpouring of 17,500 people, and the final LASER electro-optical meeting, that recorded more than 7,000 technical experts from around the world.

Officials of the Munich organizing company are optimistic about the remainder of 1979. A few of the upcoming events include: the September introduction of a new international event for the ceramatics industry, "ceramitec," following closely on the first-time presentation of a fall ISPO event to accommodate year-round sporting goods and attire. Also in September are Intermontec, the trade fair for alpine sports, leisure and tourism, and SYSTEMS, the leading European trade fair for computers, peripheral equipment and their application.

The fall Fashion Week is scheduled for early October, with the international catering and hotel fair, IGAFA, set for later that month. Worldwide participation is expected for the PRODUCTRONICA meeting, bringing electronic production experts from all over the globe to Munich, and the curtain will drop on this year's fair activity when Heim + Handwerk, for handicrafts in the domestic sphere, takes place. ▪

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This uncompromising commitment to quality by Siemens is the basis of our growth in a broad range of products and systems. In the components area, quality means thorough testing. In the medical area, exceptional reliability. In telecommunications, advanced technology. In power engineering systems, material and energy savings.

With U.S. sales of over $300 million, a major capital investment in manufacturing plants, joint ventures, and field offices across the country, Siemens is in a strong position to make constructive contributions to the American industrial community. By sharing in the benefits of a worldwide R & D investment of $4 million each working day, Siemens and its customers can look forward to mutually beneficial growth.

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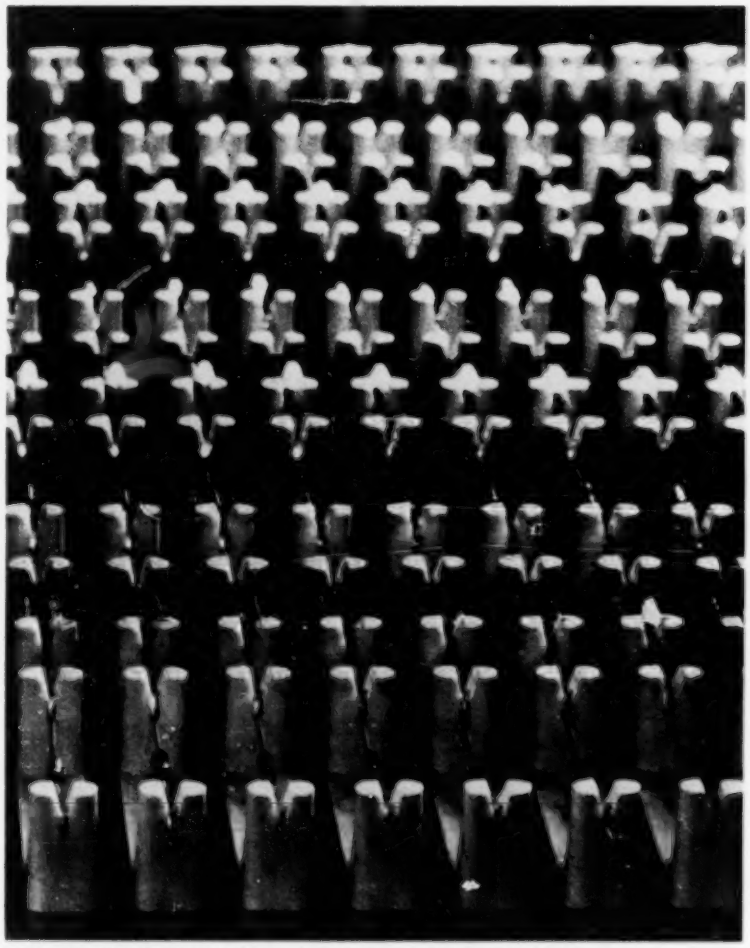

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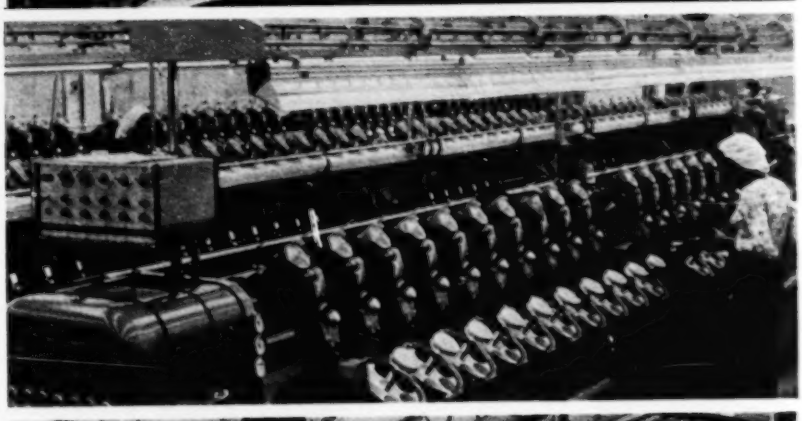
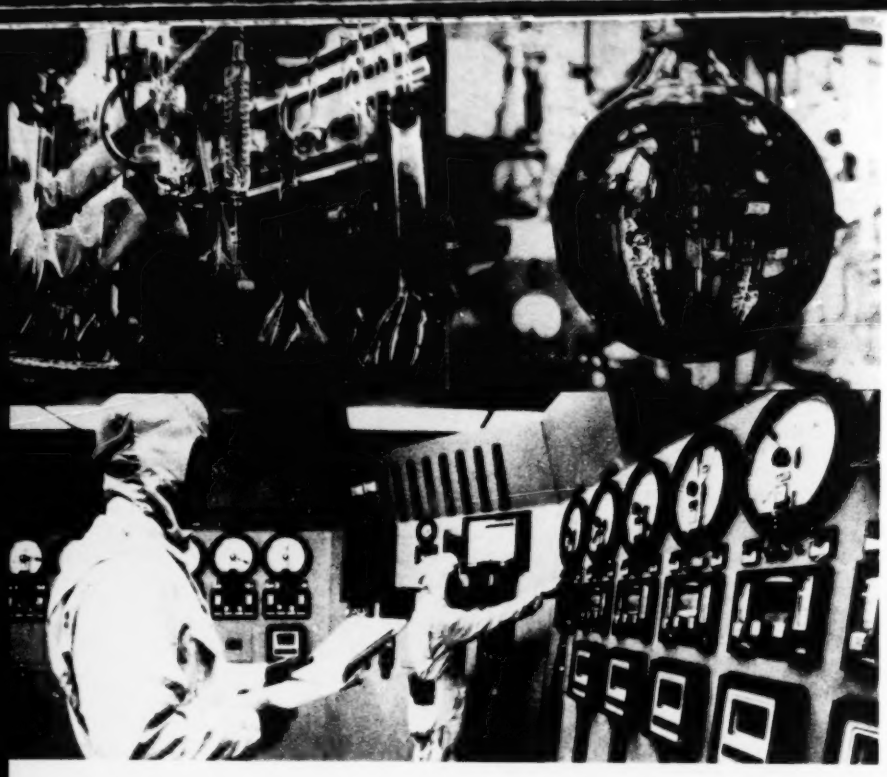
Another Active Quarter for German Investors in the U.S.



German investors showed no signs of diminished readiness to initiate direct involvements in the United States in the second quarter of 1979. The 34 individual direct German investments in the U.S. in the April-June period of the current year compared with a total of 26 in the previous quarter. The 60 German direct investments reported in the first two quarters of 1979 together thus outpaced the total of 46 German direct investments in the U.S. registered in the comparable period of last year.

As in previous months, German direct investment in the United States in the second quarter of 1979 was again led by the chemical and machinery industries. The latter displayed particularly lively investment activity in this three-month period—18 of the 34 reported German direct involvements in America in this period fell under the category of machinery and machine tools. This compares with a total of 15 U.S. investments by German machinery manufacturers in the first quarter of 1979. German chemical companies accounted for 5 direct investment projects in the U.S. in the second quarter of 1979, as compared with 8 in the January-March period.

Top: Production facility of Georgetown Texas Steel Corp., a subsidiary of Korf; Middle and bottom: views of Badische Corp. Yarn producing facilities



Top and Bottom right: two views of BASF's R&D operations on which the company spent DM 830 million last year.

Germany occupied first place as a chemical exporter in the world. The German industry exported 41.3 percent of domestic production in 1978, and some companies shipped up to two-thirds or more of total production. However, the steep appreciation of the D-mark against almost all major currencies and the escalation of labor costs have now transformed Germany overnight into one of the highest cost producers in the world.

Paradoxically, these obstacles have not prevented chemical exports from rising faster than domestic sales almost every year. Behind this phenomenon lie the profit margin woes that have become a source of growing apprehension for the industry in recent years. Says a BASF spokesman: "You have to look at the reasons behind it. We must push exports to keep our plants running and preserve jobs. But the exports contribution toward profits is marginal."

In many cases, of course, German firms pursue foreign markets so aggressively, despite shrinking profit margins, in order to maintain market share. But the end result is to pare overall profit margins to the bone. Or, as Degussa president Gert Becker notes, companies "accept export orders that yield little or no profit and sometimes do not even cover the full costs, meaning that the company absorbs the D-mark revaluation effect at the expense of its profits."

Shifting plants overseas

The combination of stagnating domestic markets and dipping profit margins for exports has led to a major shift in emphasis toward foreign direct investment. According to one estimate, total foreign capital investment by the German chemical industry (including reinvested profits of overseas subsidiaries and credits raised abroad) exceeds $5.5 billion, and sales of German chemical subsidiaries overseas now total $14-15 billion a year; by comparison, export volume now stands at $18.5 billion. Thus, the industry's total foreign sales, exports and sales of foreign subsidiaries, now surpass domestic revenues of about $27 billion.

Reliance on overseas markets is particularly strong among the Big Three. Foreign sales range from 70 percent for Bayer to two-thirds for Hoechst and a bit more than half for BASF. Closely held Henkel sells 52 percent of its production abroad, and almost all of this flows from foreign-based production facilities.

The most favored location for most German chemical companies is the United States. Says Bayer's Gruenewald: "The necessity to go abroad has become stronger still for us." Referring to the U.S., he emphasizes the importance of an efficient sales organization underpinned by production in the U.S. "This strengthens the market position, promotes sales of intermediates, which are often imported from Germany, and opens the possibility of expanding activities to other products," he adds.

The German chemical industry's growing commitment to this country is graphically illustrated in current U.S. investment plans by Germany's top two firms.

Beginning with the opening of a small sales office on the 82nd floor of the Empire State Building in the early 1950's, Hoechst's American operations have mushroomed to $900 million in sales, employing 9,000 Americans in 19 states. Juergen Dormann, deputy chief of the corporation's "central planning bureau", candidly discusses the firm's current goal: "By 1983, the United States should account for at least 12 percent of our global sales."

In late spring, the company announced plans to spend $600 million over the next five years on plant and equipment in this country, and some company executives believe that prospective acquisitions are likely to increase that figure. As John Brookhuis, the president of American Hoechst, sums up, "We are constantly looking for companies that we could buy here."

More ambitious still are the spending plans of second ranking Bayer. Although Bayer first came to these shores in 1865, serious expansion in the U.S. began in 1953 with the purchase of a one-third stake in Kansas City-based Chemagro. Today, the company's American assets amount to about $1.68 billion, generating sales in the U.S. alone of over $2 billion. Earlier this year, Bayer announced that it plans to invest $1 billion to double its business volume in the U.S. over the next five years. More specifically, Bayer estimates that it holds about 1 percent of the U.S. markets it competes in and anticipates doubling this share to 2 percent.

Confronting major problems even as it enjoys a surge in sales and profits, the German chemical industry has clearly drawn up a strategy for sustaining its financial strength in the 1980's. The industry's leadership believes that continued commitments to research and development, combined with vigorous overseas expansion, will provide the catalysts for growth and health in the coming decade. ▪

Of the 34 individual German investments in the U.S. announced in the second quarter of 1979, exactly one-half were located in the South. Available data indicate that the most popular southern states for German investors were South Carolina, North Carolina and Tennessee. While no single overriding explanation can be cited for the obvious attractiveness of southern locations for German investors, recent trends have shown that competitive investment and tax incentives, coupled with abundant reserves of comparatively inexpensive skilled labor have been decisive in attracting German investors to southern states.

The accompanying chart lists those German investments in the U.S. announced or initiated in the second quarter of 1979. Dollar amounts for individual investments are included where possible; in several cases, the German firms have declined to reveal the extent of their financial involvement in the U.S.

Firm Announcing Investment	Type of Investment
ADO Gardinenwerke	Has acquired a 9,000 sq. meter manufacturing facility in Spartanburg, S.C. to supply draperies to the U.S. market this fall.
Hermann Biederlack & Co.	Acquired a 90,000 sq. ft. building in Allegany County, Md. to produce acrylic and cotton blankets.
Willy Bogner KG	Bogner of America, Inc. announced a 22,000 sq. ft. expansion of its plant in Newport, Vt.
Gruner & Jahr AG	Acquired Brown Printing Corp., a subsidiary of Bemis Co. for $45 million.
BASF AG	Announced a $27 million expansion of its chemicals facility at South Brunswick, N.J.
BASF AG	Will build a $50 million acrylic esters plant near Freeport, Texas.
BASF AG	Badische Corp., the U.S. affiliate of BASF announced a $20 million capital expenditures program for its nylon manufacturing plant in Anderson, S.C.
BAYER AG	Bayer's affiliate, Miles Laboratories, announced a $7.5 million expansion of its citric acid facility at Dayton, Ohio.
Hoechst AG	Will acquire a polyester film and resin plant from Celanese Corp. for $75 million.
Heidelberg Zement AG	U.S. affiliate of HZ, Lehigh Portland Cement Co. announced a $220 million expansion program.
Norddeutsche Schleifmittel-Industrie Christiansen & Co.	Will construct a manufacturing facility in Virginia Beach, Va. to produce coated abrasives.
Bergrohr GmbH	Formed a joint venture with Western Steel Pipe and Intercontinental Metals Corp. and will build a $20 million plant to produce steel pipe.
SKW Trostberg AG	Acquired ferroalloys plants in Niagara Falls, N.Y. and Calvert City, Ky. from Airco, Inc.
U.I. Lapp KG	Will build a plant in New Jersey to produce control cables.
Metallgesellschaft AG	KSG Industries, a joint venture of Metallgesellschaft and Safeguard Industries, purchased Manley Valve Co. of York, Pa. for more than $3 million.
Korf & Fuchs Systemtechnik GmbH	Korf & Fuchs Systems Inc. will build a plant near Salisbury, N.C. to produce water-cooled wall and roof systems used in steel plants.
Schloemann-Siemag AG	Acquired Sutton Engineering Co. for around $9 million.
Grass und Schellenberg GmbH	Will build a 10,000 sq. ft. facility in Hickory, N.C. to manufacture circular saws.
Collo GmbH	Will build a $3.5 million facility in Maury County, Tenn. to produce floor cleaning appliances.
Riester	Auma Actuators, Inc., Riester's U.S. affiliate, will build a plant in Pennsylvania to produce valves and actuators.
Siemens AG	Siemens-Allis will build a $7 million plant near Raleigh, N.C. to produce electrical switchgears and substation equipment for utilities.
Kautt & Bux KG	Will construct a plant in Mundelein, Ill. to make commutators, switches, and sliprings for the appliance and motor industries.
Rekofa Wenzel GmbH & Co. KG	Has established a U.S. affiliate and announced plans to build a plant in Virginia to make mechanical carbon parts.

Firm Announcing Investment	Type of Investment
Kloeckner & [illegible]	Will acquire R.O. Deaderick Co. of Knoxville, Tenn. and Deaderick & Royster Inc. of Charlotte, N.C., two machine tool distributors.
Rothenberger GmbH & Co.	Will purchase a line of pipe repair tools for the plumbing industry from Flomatic Corp.
C.A. Weidmueller KG	Through its U.S. subsidiary, Weidmueller Terminations Inc., has begun construction of a 12,000 sq. ft. warehousing and assembly facility for terminal blocks and strips for electrical and electronic circuitry.
Knopf GmbH & Co. KG	Established two U.S. branch offices to offer packing and shipping services directly to U.S. customers.
Telefon und Normalzeit GmbH	Acquired 50% of its independent representative TN Telephone Sales Corp. of New York.
Scharf GmbH	Established a subsidiary in Pittsburgh to handle sales, service, and distribution of the parent firms underground mining equipment.
Hoechst AG	Hoechst's reprographic division will exercise an option to purchase a license for existing and future "liquid toner transfer" technology in Europe from Savin Corp.
Maschinenfabrik Carl Zangs AG	Is building a sales and service facility in Spartanburg, S.C. to handle its line of textile machinery.
Automatik Apparate-Machinenbau H. Hench GmbH	Has established a U.S. affiliate in Stamford, Conn. to process U.S. orders for its plastics and fibers machinery.
Schuhhaus Ludwig Goertz	Acquired N. Hess Sons Inc. of Baltimore, a retail shoe chain with 25 outlets.
Rexroth Corp.	The U.S. subsidiary of G.L. Rexroth GmbH acquired the Hydraulics Division of Borg-Warner

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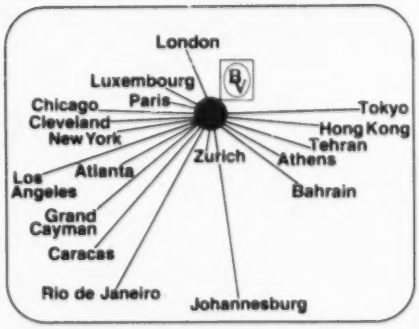

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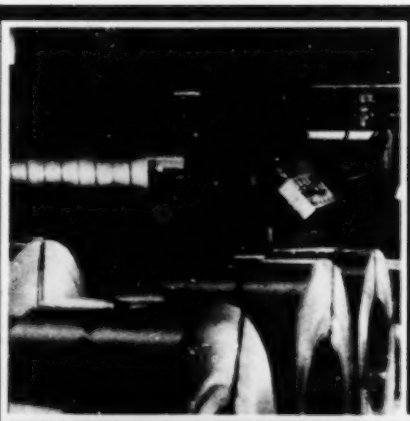

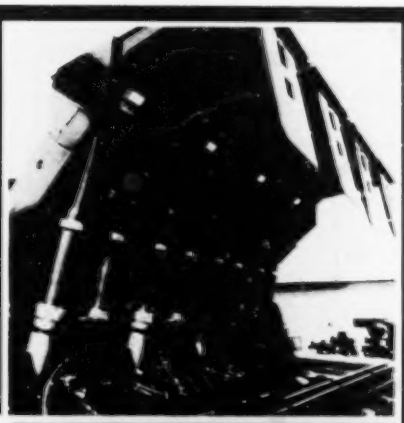

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Thyssen Steel West Coast Los Angeles

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Pipe and Tubing

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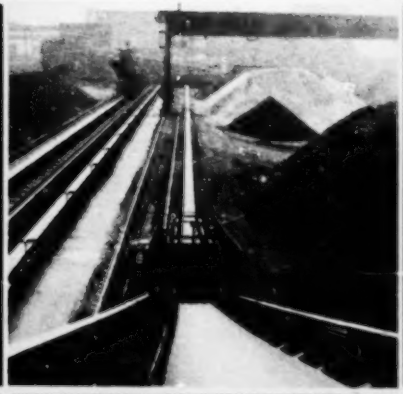

5
Industrial Products Divisions

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THE TRADE AGREEMENT ACT OF 1979:

A New Dimension to America's Position in International Trade

by David P. Houlihan,
Partner in the Law Firm,
Daniels, Houlihan and Palmeter,
Washington, D.C.

The Trade Agreements Act of 1979, which passed both Houses of the United States Congress by overwhelming margins and was signed into law by the President on July 26, 1979, implements on behalf of the United States the agreements reached in the Tokyo Round of the Multilateral Trade Negotiations. The new U.S. law will have a profound impact on trade with the United States—not all of which was necessarily contemplated by the parties to the Tokyo Round.

The 1979 Act has at once a liberalizing and restricting impact on trade. The liberalizing components include an improved system of Customs valuation, improved possibilities for the use of imports in governmental procurements, the inclusion of an injury requirement before imposition of countervailing duties and a stricter injury standard in U.S. antidumping cases in conformance with the "material injury" requirement of the International Antidumping Code.

The most trade restrictive portions of the law occur in the antidumping and countervailing duty areas. In essence, the U.S. laws on antidumping and countervailing duties have been totally rewritten by the Trade Agreements Act, and these changes comprise the bulk of the legislation. As can be witnessed from the accompanying charts, not only have time limits in both the antidumping and countervailing areas been harshly curtailed, but the entire process has been profoundly confused.

Antidumping

The changes in the U.S. Antidumping Law, to become effective January 1, 1980, are perhaps the most trade restrictive in the 1979 Act. Other than a slight improvement in the injury standard and certain relatively minor provisions, the changes in the law are uniformly biased against importers and overseas manufacturers. New procedural requirements, especially severely truncated time limits, are especially disadvantageous to exporters who must make their presentation in reaction to previously prepared submissions by domestic interests. Compounding the problem is the added necessity of proceeding simultaneously on the question of injury before the International Trade Commission (ITC) and the issue of less than fair value (LTFV) sales before Treasury rather than sequentially as under the old law. Add to this enhanced possibilities for retroactive withholding of appraisement, lessened protection of confidential cost and price information submitted by exporters and the need to deposit estimated dumping duties at the time of entry rather than upon liquidation and one has the foundation of a considerably trade disruptive package.

On the positive side is the upgrading of the injury standard by the addition of the modifier "material" before the word "injury." While debate on the actual difference between mere "injury" and "material injury" can become quite involved, there can be no question that the term "material injury" connotes a higher degree of injury than the term "injury" alone.

The most severe impact on exporters will be from the new shortened time periods allowed for conducting an antidumping investigation. Overall, the total time period in a normal investigation, beginning with public initiation and ending with the final ITC determination on the question of injury, has been reduced from approximately 390 days under the old law to 280 days under the 1979 law. (See chart: Antidumping Time Limits) This leaves exporters with a net of one-third less time in which to locate and assemble data and prepare legal arguments on their behalf, as well as for officials at Treasury and the ITC to assimilate this information. Not only does this make adequate preparation of what may be a valid defense more difficult, unresolved and unresolvable issues have historically tended to be decided against the exporter.

The first stage of an antidumping investigation is completed with the Treasury Department's preliminary determination on the issue of LTFV sales. There is a crucial point in the investigation because, if the determination is affirmative, suspension of liquidation (withholding of appraisement) occurs and importers are required to post a bond sufficient to cover potential dumping duties. The uncertainty created by virtue of this potential liability as well as the added cost of the bond do have a trade disruptive effect. The 1979 Act reduces by 40 days the time period for exporters to present their case to Treasury before a preliminary determination is made. The predicted effect is more affirmative determinations, because the inability of exporters to adequately prepare will mean heavier reliance on data submitted by the domestic industry. Suspension of liquidation will occur at an earlier date, and the likelihood that businessmen can clear goods in the pipeline resulting from contracts predating the investigation will be reduced.

The more important change occurs with respect to the final injury investigation conducted by the ITC. Under the old law, an injury investigation takes place only after the Treasury Department makes an affirmative final determination that LTFV margins in fact exist. The 1979 Act requires this investigation immediately upon an af-

firmative preliminary finding of LTFV sales. The change has a two-fold detrimental effect: First, the ITC is placed in the anomalous position of having to decide whether injury has been caused "by reason of" LTFV sales when it does not yet know they in fact exist; and, second, in many cases final margins of dumping tend to be lower than those ascertained initially at the preliminary stage. Thus, the causal relation between existing domestic injury and LTFV imports will tend to be over-estimated.

The Act contains a number of other significant changes which must at least be noted. First, once a final dumping finding is in effect, estimated dumping duties will now have to be deposited immediately upon entry rather than after Customs has made a final assessment on an entry to determine the actual, if any, amount of dumping duties owing.

A second point pertains to the protection of confidential submissions to the Treasury. The change applies to both antidumping and countervailing duty proceedings. Under the 1979 Act, these confidential submissions may be disclosed to representatives of the domestic industry under a "protective order."

Finally, the Act substantially modifies with uncertain effect the role of the Courts in reviewing administrative decisions in both antidumping and countervailing duty cases. On the one hand, access to the Customs Court has been enhanced: importers may now obtain immediate review of adverse final determinations and, for the first time, foreign manufacturers and governments, as well as domestic labor unions, are given the right to challenge adverse final determinations in Customs Court. On the other hand, the 1979 Act increases the opportunities for domestic industry to attack adverse decisions by expanding the issues reviewable by the Customs Court. While both of these factors tend to increase the importance of the Customs Court in antidumping and countervailing duty cases, limitations on the standards of review to be applied have a contrary effect. Lastly, the flexibility of the Customs Court in shaping a remedy has been augmented through the granting of powers to enjoin, or forbid, certain actions.

Countevailing Duties

The 1979 Act comprises a sweeping rewrite of existing law concerning the application of countervailing duties

ANTIDUMPING:

COMPARISON OF TIME LIMITS UNDER THE TRADE AGREEMENTS ACT, 1979, WITH EXISTING PROVISIONS

Scenario	Day	New Law	Day	Old Law
	1	Complaint filed simultaneously with Treasury and ITC	1	Complaint filed only with Treasury
	20	Initiation of investigation	30	Initiation of investigation
	45	ITC: Determination of reasonable indication of material injury	60	ITC: Determination of "no reasonable indication of injury" only if referred by Treasury
		Treasury Stage		
A	110	Treasury preliminary determination of LTFV sales: Verification waived		No comparable provision
B	160	Treasury preliminary determination: Simple case	210	Treasury preliminary determination: Simple case
C	210	Treasury preliminary determination: Complex case	300	Treasury preliminary determination: Complex case
D A	185	Treasury final determination (75 days	300	Treasury final determination (90 days
B	235	after preliminary)	390	after preliminary)
C	285			
E A	245	Treasury final determination: Extension granted (135 days after preliminary)		No comparable provision
B	295			
C	345			
		ITC Stage		
		ITC final determination of material injury commencing with affirmative preliminary determination at Treasury:		ITC final determination of material injury only after affirmative final determination at Treasury in normal cases (90 days after Treasury final):
A	230	No extension granted at Treasury (120	390	Simple case
B	280	days after Treasury preliminary)	480	Complex case
C	330			
EA	290	Extension granted at Treasury (45		
EB	340	days after Treasury final)		
EC	390			
DA	260	ITC final determination commences		
DB	310	with affirmative final determination at		
DC	360	Treasury where Treasury preliminary		
EA	320	determination was negative (75 days		
EB	370	after Treasury final).		
EC	420			

COUNTERVAILING DUTIES:

COMPARISON OF TIME LIMITS UNDER THE TRADE AGREEMENTS ACT, 1979, WITH EXISTING PROVISIONS

Day	New Law	Day	Old Law
1	Complaint filed simultaneously with Treasury and ITC	1	Complaint filed only with Treasury
20	Initiation of investigation		No statutory time limit
45	ITC determination of reasonable indication of material injury		No comparable provision
	Treasury Stage		
85	Treasury preliminary determination of subsidization: Simple case	180	Treasury preliminary determination of subsidization
150	Treasury preliminary determination: Complex case		No comparable provision
160	Treasury final determination (75 days	365	Treasury final determination
225	after preliminary)		
	ITC Stage		
	ITC investigation of material injury:		ITC investigation of material injury only for duty-free products:
205	Final determination: Commenced with affirmative Treasury preliminary (120 days		
270	after preliminary)		
235	Final determination: Commenced with affirmative Treasury final (preliminary negative 75 days after final)	455	Final determination only after affirmative Treasury final (90 days after final)
300			

on subsidized imports. Substantively, the addition of an injury requirement considerably reduces the possibility that countervailing duties will be imposed, while new definitions of what constitutes a "subsidy" have the opposite effect. Procedurally, the Act transforms the countervailing duty investigation from what had been a rather leisurely paced process to one with rigorous and difficult time limits (see chart: Countervailing Duty Time Limits).

Existing U.S. countervailing duty investigations entail a two-step, one year process. During the first six months a preliminary determination is made as to whether a subsidy exists; the final determination follows six months later. With the exception of investigations concerning duty-free merchandise, present law requires no finding of injury prior to the imposition of additional duties to countervail a subsidy.

Effective January 1, 1980, all of this is scheduled to change. Rather than having a full year to decide the question of subsidization, it will now be necessary to render final determinations on both the issue of subsidies and of injury within a period of about six months in normal cases or seven and one-half months for the most complex cases. Treasury will now have to issue a preliminary determination within 85 days of the filing of a complaint, or 150 days for complicated cases. As in the case of the antidumping amendments, the extreme contraction of time periods will certainly multiply the burden on foreign exporters participating in countervailing duty proceedings. Consider, for example, what must be done in the short period of time allowed for a preliminary determination: A questionnaire concerning the allegations of the petition must be prepared and presented in the foreign capital by the United States Embassy; a detailed response comprising both accounting and analysis must be drawn by the exporters or foreign government or both; delivery of the response to the U.S. Treasury and verification by Treasury officials visiting the country concerned must be effected; finally, Treasury must assimilate and analyze the response, a process often involving follow-up questions and additional answers on the part of the foreign government or exporters. In short, the procedural revisions of the 1979 Act create the distinct possibility that Treasury Department officials will have inadequate time to consider all of the information received or even to receive all information necessary before a preliminary determination must be given.

Equally important as the new time constraints is the fact that the ITC will for the first time (other than for duty-free imports) participate in the countervailing duty process by virtue of the injury requirement added by the Act. The provisions for injury determinations parallel those found in the revised antidumping law: A preliminary injury inquiry to be completed within 45 days of the filing of the complaint is required in all cases and a negative determination ends the case; investigations leading to a final determination on the question of injury begins immediately upon an affirmative preliminary finding of subsidies by Treasury and have the same anomalous effect as under the antidumping law; if Treasury's preliminary finding is negative, the ITC will nevertheless investigative injury if and when an affirmative final determination is rendered by Treasury; and, finally, the standard of injury required for an affirmative final determination of injury is the same in both cases, namely, "material injury."

Increased use of withholding of appraisement is also assured by the 1979 amendments. Under the old law this did not occur until a final finding of subsidized imports was rendered; under the Act, withholding of appraisement will be required at the time of an affirmative preliminary determination, regardless of the final outcome on the issue of subsidies or of injury. In addition, the new countervailing duty law, like the antidumping law, provides for retroactive withholding of appraisement in "critical circumstances."

Finally, it should be noted that amendments to the countervailing duty law defining "net subsidy" are likely to result in an overstatement of the amount of subsidy received. In general, the Act limits the adjustments that can be made to reduce the gross subsidy in calculating the net benefit bestowed. This is particularly true in the case of regional incentive payments: Regional payments which merely compensate for additional costs incurred by locating in less developed areas will now be considered countervailable subsidies under U.S. law with no allowance made for the dislocation costs incurred by an enterprise.

Customs Valuation

Amendments to the existing law of Customs Valuation contained in Title II of the Act implement U.S. obligations under the Customs Valuation Code negotiated in the Tokyo Round. The amendments greatly simplify the complex standards and methods presently applied in assessing the value of merchandise imported into the United States. Though not eliminating alternative methods of valuation, the Trade Agreements Act reduces these in number from nine to five by eliminating the most objected to methods, the American Selling Price (ASP), as well as the entirely separate system of valuation for products on the so-called Final List.

The principal method of valuation authorized by the new law, the international transaction price, or "transaction value," constitutes a more readily ascertained and verified value than the export value it replaces. Alternative values based upon prices of identical or similar merchandise will usually be more advantageous to importers and foreign manufacturers than the comparable alternatives provided under the old law because the Act specifies the use of the lowest price, whereas the old law applies the "freely offered price," which is often the highest price paid. More latitude is given for establishing a transaction value between related parties than is permitted under current interpretations of export value. Finally, the flexibility presently found in "Section 500" to adjust value according to unique circumstances has been maintained, while its inapplicability as a separate means of valuation has been clarified.

The five specific methods of valuation prescribed by the Act are, in order of application: (1) The transaction value of imported merchandise; (2) the transaction value of identical merchandise; (3) the transaction value of similar merchandise; (4) the deductive value; and (5) the computed value. At the direction of the importer, the order of application of the fourth and fifth methods may be reversed.

The transaction value for imported merchandise is represented by the actual price paid by the importer appropriately adjusted for packing costs, selling commissions, royalty or license fees assumed by the buyer or the value of any manufacturing assists provided by the buyer and deduc-

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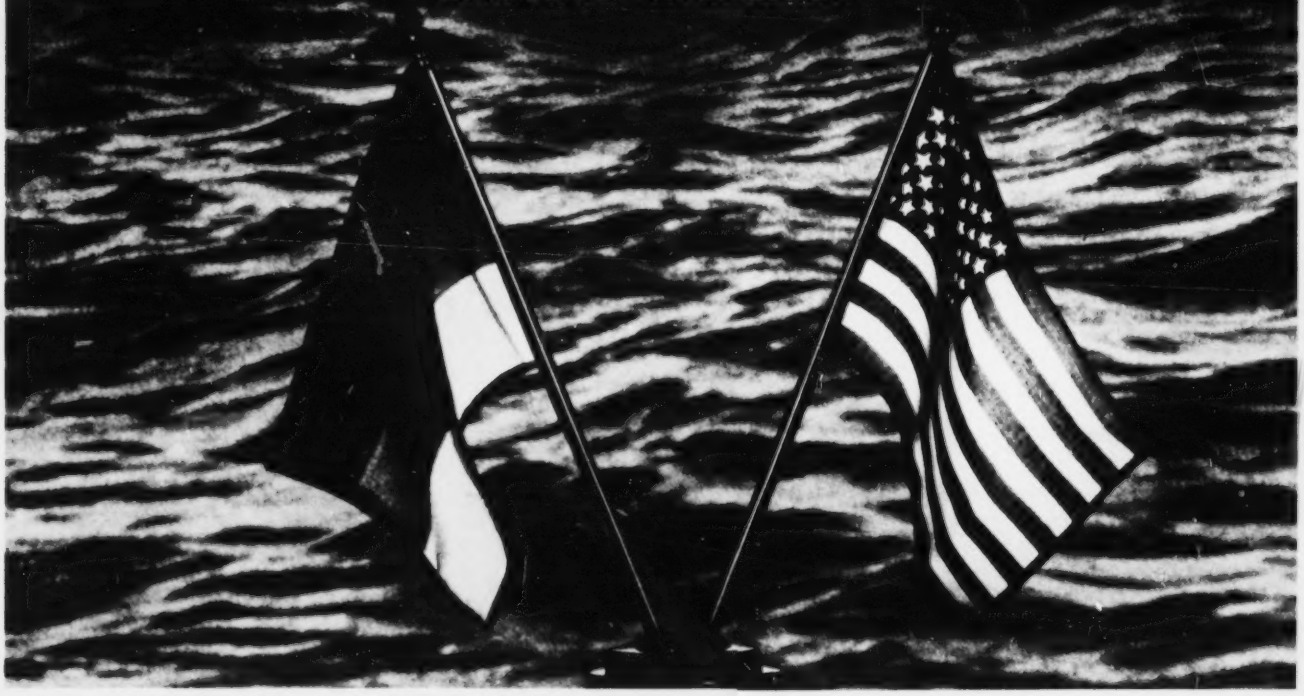

tions for non-dutiable charges. In the usual case, reference can simply be made to the manufacturer's invoice: It is no longer necessary, as under the present export value method of valuation, to be concerned with such intricacies as the "freely offered" price on the date of export, "usual wholesale quantities," or the price at the wholesale level where the actual transaction is conducted at another level.

Judicial constructions under the present law permitted export value to be established in related party transactions only upon evidence that the transaction price was comparable to that received by unrelated parties in sales of identical or similar merchandise from the same country of origin as the merchandise under appraisement. The Trade Agreements Act allows the transaction value between related parties to be accepted if either (1) the circumstances of sale indicate the price is not influenced by the relationship; or (2) the price actually paid approximates any of a set of test values, including that applied for export value above, but also including the deductive value of identical or similar merchandise and the transaction value of sales to unrelated parties of identical merchandise exported to the United States from third countries.

In all cases, an alternative method of valuation must be used if the sale of merchandise actually imported is restricted, other than by law, in terms of disposition or use, geographic limits of resale or by other restrictions substantially affecting value.

The deductive value is the Act's version of the United States value under current law and is based upon an adjusted transactions price to unrelated buyers of the same, identical or similar merchandise at the first commercial level after importation. Under the Trade Agreements Act, the proximity of the date of sale of the "merchandise concerned" to the date of importation and the condition of the merchandise concerned upon sale become important.

Computed value is similar to cost of production or constructed value and is the sum of actual costs of production, constructed profit and general expenses, assists and packing costs.

Title II of the Act also incorporates adjustments to the tariff schedules to compensate for the elimination of the ASP method of valuation and of the Final List. New rate schedules apply to certain ball or roller bearings and pneumatic tires (Final List) and to canned clams, plastic- or rubber-soled footwear, wool knit gloves and benzoid chemicals (ASP) and allegedly provide approximately the same degree of protection as under existing methods of valuation.

It should be noted that the effective date for implementation of the new Customs valuation provisions is uncertain. The Act specifies that January 1, 1981, is the intended effective date, but that implementation will be delayed until the MTN Customs Valuation Agreement enters into force with respect to the United States. However, an earlier effective date is possible as the President is directed to implement the amendments by Presidential Proclamation at any time on or after July 1, 1980, that the Customs Valuation Agreement is accepted and implemented by the Member States of the EEC. Again, this may only be temporary if the Customs Valuation Agreement has not entered into force with respect to the United States by January 1, 1981: Then the old laws are revived until the Agreement does enter into force.

Government Procurement

Title III of the Act implements the Government Procurement Agreement reached in the Tokyo Round. The Agreement requires all signatories to refrain from discriminating against imports in procurements covered by the Agreement. While Title III does not specifically amend existing legislation relating to government procurement, it does authorize the President to comply with the Agreement by waiving the provisions of the Buy American Act of 1933 in favor of countries, or instrumentalities, who are signatories to the Government Procurement Agreement and who provide reciprocal competitive opportunities to U.S. products and suppliers.

At present, Federal government procurement in the United States is covered by the Buy American Act as implemented by various Executive Orders. In general, these require the purchase of U.S.-made products by the Federal government unless the cost is unreasonable or the domestic purchase is not otherwise in the public interest. In practice, these requirements operate to give preference to U.S.-made goods in the amount of 6 or 12 percent for civilian agency purchases, and 50 percent for Department of Defense purchases. With a number of exceptions, Title III in certain circumstances will eliminate these preferences.

The major exception is that purchases by state and local governments are not affected by the agreement, and consequently states and localities can continue to discriminate, subject to other more general provisions of U.S. law. The Agreement requires the Federal government to inform state and local governments of the principles and rules of the Agreement and to draw to their attention the overall benefits of liberalized government procurement. Other exceptions to the nondiscriminatory aspects of the Agreement include those programs relating to small businesses and minorities; certain restrictions on the Defense Department in the area of textiles, clothing, shoes, food, stainless steel flatware, certain specialty metals, buses, ships and components, hand tools, prison and blind-made goods.

The Act contains numerous requirements for Presidential reports to Congress on the operation of the Government Procurement Agreement. Generally, in the area of government procurement, the United States considers itself one of the most open and liberalized trading nations. Consequently, this is an area in which the U.S. considers itself "more sinned against than sinning." There is, therefore, the belief that U.S. opportunities to sell to foreign governments should increase more readily than foreign government opportunities to sell to U.S. agencies.

Conclusion

The Trade Agreements Act and the MTN in general have been praised by officials as integral steps in furtherance of world trade liberalization. The cumulative impact of the changes wrought, especially in the dumping and countervailing duty areas, suggest, however, that the implementing legislation often is contrary to the spirit of the negotiated agreements. The general forecast is for international businessmen operating under the new law to be encouraged by the increased possibilities for government contracts, relieved by the relative convenience and realism of the Valuation Code, and thoroughly dismayed at the procedures and standards for determining the existence and extent of any "unfairness" in their trade. ▪

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German Chemicals in a Profits Upswing

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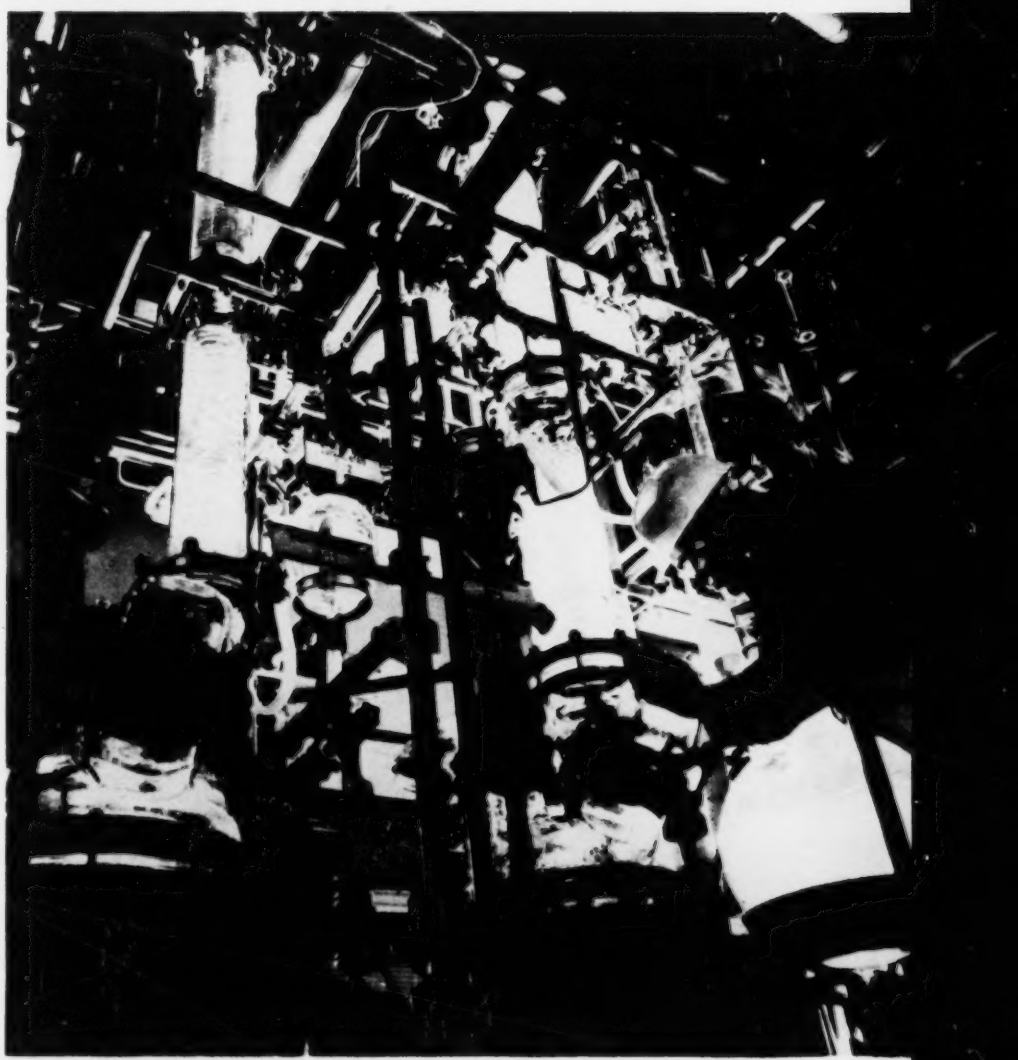


BASF's training facility in Ludwigshafen

The German chemical industry, whose profits have been subject to volatile swings for most of this decade, experienced a welcome rise in earnings at the end of 1978 and an unexpected surge in the first quarter of this year. Beset by problems of overcapacity in the European market, skyrocketing raw materials costs and an appreciating D-mark, German chemical companies are maintaining a cautious stance on future prospects. For most firms, the key to future health will lie in expanding their overseas investments, particularly in the United States.

The 1978 upturn, catalyzed by a generally upbeat economic environment in the European Community and continued strong demand in the U.S., has accelerated through the first half of this year. Indeed, the profits surge through the first half has been so strong that many analysts expect results for the full year, notwithstanding a widely expected slowdown in the second half, to surpass the 4 percent sales growth predicted earlier this year. This performance has dissipated much of the gloom from the German chemical industry, which has not enjoyed a truly good year since 1974.

The hangover from the 1974-1975 recession lasted longer in chemicals than in many other branches of industry. In 1977, revenues increased by only 1.9 percent and profits plummeted by 18 percent. Last year's results were mixed. A pickup in demand was accompanied by a decline in prices, an inversion that was largely caused by the steady appreciation of the D-mark—13.5 percent over the greenback in 1978 alone. Along with the added burden of European overcapacity for most chemical products, the domestic price level sunk by 1.6 percent and the export price level by 3.3 percent in 1978.

Badische Corporation's Freeport, Texas production site

Thus, a healthy 5 percent increase in sales volume translated into a weak 2.7 percent rise in sales value to $46.6 billion, of which $19.2 billion were exports. On the brighter side, higher operating ratios and a strong fourth quarter performance infused badly needed profits into most German chemical companies, although profit margins remained low by international standards.

Compared with the past four years, preliminary 1979 figures seem euphoric. In the January-March period, revenues jumped by 12 percent, led by a 10 percent rise in sales at home and a sharp 14 percent escalation in shipments abroad. Most importantly, profits expanded impressively and current indicators suggest that the strong trend line has continued through the second quarter. The Big Three, for instance, reported an average gain of 8.3 percent in sales growth in the first quarter of 1979, while pretax profits leaped 28.8 percent, as compared with a 10.7 percent rate last year (German companies submit reports on a pretax basis, with reserves against losses mixed with actual profits in net figures; analysts in the U.S. regard the pretax figure as the most reliable indicator of a company's actual performance).

Larger problems loom

The international chemical industry today stands at a crossroads. Chemical executives at this juncture might welcome the discovery of the contemporary equivalent of the elusive medieval philosopher's stone which would transform base metals (in today's terms, basic problems into gold, i.e., profits). In Europe, Japan and the United States, a multibillion dollar industry that turns petroleum, sulphur, potash and an infinite variety of other substances into useful materials for agriculture, households and industry is seeking panaceas for an avalanche of problems that have enveloped it within just a few years. Long heralded as an engine of seemingly infinite growth probing the frontiers of twentieth century technology, the chemical industry is now defined by some Cassandras as scientifically mature. Even as the cost of feedstocks has quintupled, the industry finds itself assaulted by ecological crusaders who have imposed costly restraints on current operations and future expansion. As a result, the admirable growth rates of 8-10 percent, which prevailed before the OPEC price hike, have been cut in half.

Six major problem areas head the list of concerns in Europe and America:

- Slower growth. Synthetic product substitutes such as plastics, rubbers, resins, and fibers encouraged industry commitment to virtually infinite elasticity of demand. Subsequent saturation of markets for bulk products has led to shrunken growth rates. Heavy investments geared to the concept of fast growth will continue to put a ceiling on profit margins for some time to come.
- New producers. European and American chemical executives are steeling themselves for an export thrust by incipient competitors from Comecon and the developing countries. Barter arrangements with East-

Last Year's Results

	1978 Sales	% change	1978 profits	% change
Hoechst	$12,660	+ 3.8%	$218.2	+ 37.2%
Bayer	11,950	+ 6.8	244.3	+ 37.4
BASF	11,250	+ 1.7	220.3	+ 8.5
Henkel	3,270	+ 4.0	NA	—
Degussa	2,650	+ 13.8*	NA	—
Huels	1,400	+ 2.0	NA	—
Boehringer Ingelheim	1,250	+ 5.0	25.6	6.6
Schering	1,170	+ 4.0	46.0	+ 33.0
Dynamit Nobel	1,070	+ 4.1	NA	—

Year ending Sept. 30, 1978. NA: Not available. Source: Chemical Week

First-Quarter Results

	Hoechst A.G.	BASF A.G.	Bayer A.G.
'79 Revenues	$3,356,000,000	$3,300,000,000	$3,300,000,000
Change from '78	+ 5.6%	+ 15.4%	+ 8.5%
'79 Pretax Profits	$104,000,000	$223,000,000	$110,000,000
Change from '78	+ 22.9%	+ 48.9%	+ 14.5%

Source: The New York Times/May 28, 1979

"... the admirable growth rates of 8-10 percent, which prevailed before the OPEC price hike, have been cut in half."

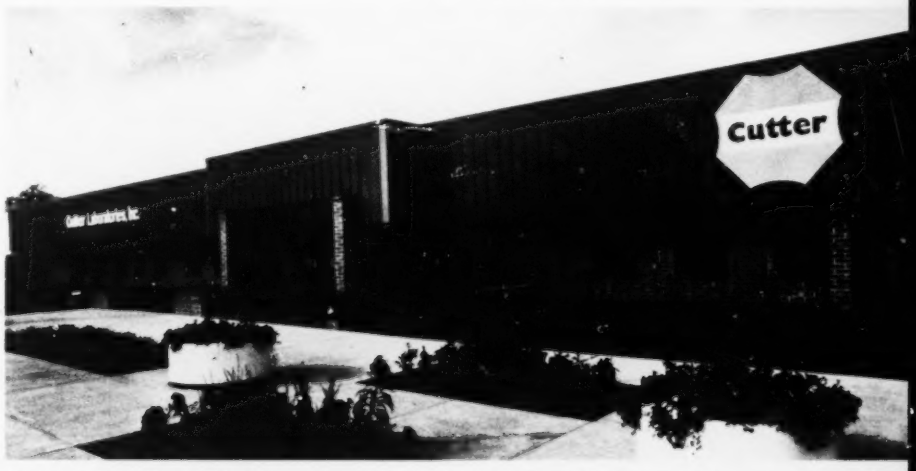
ern Europe are already creating problems in Western Europe, while Middle Eastern petroleum producing countries and Mexico aspire to acquire a share of chemical markets beyond their own borders and have the cheap feedstocks to sustain their goals.

• Expense and availability of feedstocks. More than 90 percent of organic chemicals are derived from gas and oil. OPEC pricing policies since 1973 have provided ample basis for pessimism on future prices, and the recent turmoil in Iran has led to mounting concern that political instability in the Middle East could threaten the availability of supplies at any price for prolonged periods.

• Ecological pressures. Plans for expansion and the introduction of new technologies have been severely impeded by private and governmental pressures on an industry which they view as a major source of pollution and toxic substances. Ecological mandates have also diverted substantial investment funds: in the United States approximately 10 percent of research and development and 15 percent of capital spending is accounted for by this area.

• Limits of technology. Sceptics, as well as many experts, contend that the industry's major technological breakthroughs are behind it. The heady days of knitting new molecular combinations to create new types of plastics and fibers are past, with only the more complex molecular chains left to explore. If this analysis is accurate, the promise of high returns on investment has indeed faded. More optimistic observers interpret the soaring prices of petrochemical feedstocks as providing the economic incentive to push on to the new frontier of producing chemicals from biomass raw materials on a profitable basis. The industry's laboratories are also investigating the applications of biochemical and genetic techniques. Up to now, results have been disappointing and conservative estimates presume a time frame of 10 - 20 years before this area can provide real stimulus to the industry.

• State-owned producers. Within the European Community state-owned companies in many countries evoke the specter of dumping and protectionist barriers. Of even greater potential concern is the growing capacity of the nations of Eastern Europe. For some years now Comecon has emphasized the construction of new plants with Western contractors on a buy-back basis whereby the Western partner designs and builds the plant, with repayment—in whole or in part—in output, which must be marketed in the West.



Cutter Laboratories, a subsidiary of Bayer AG, maintains a plant in Clayton, N.C.

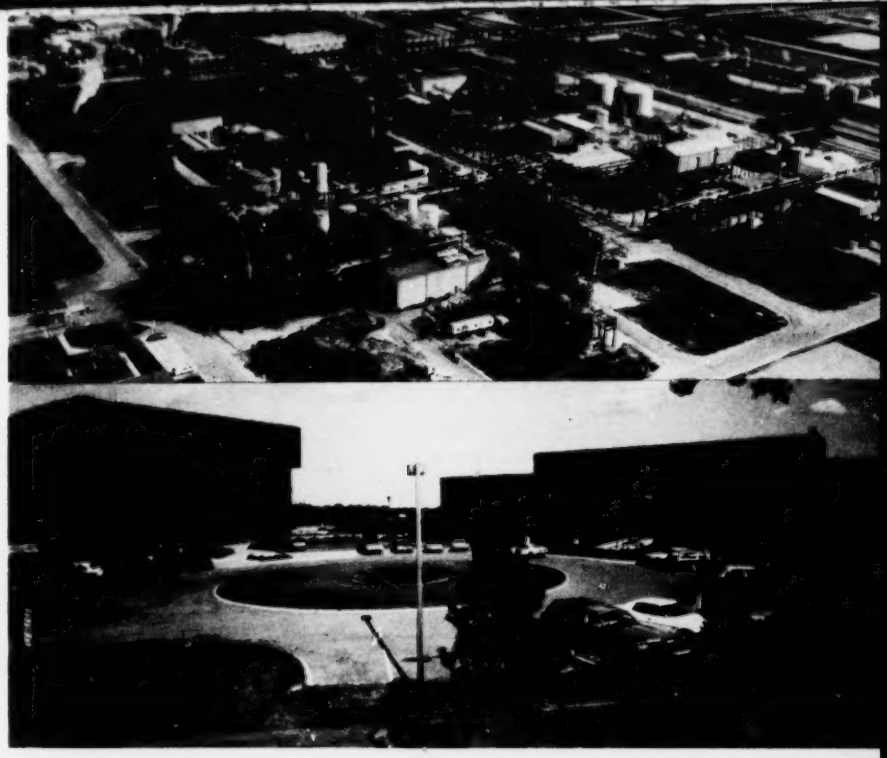
All of these problems provide a gluttinous diet for pessimists. But there is already abundant evidence that the industry is adapting to the new realities. Under the emerging European strategy, new facilities are to be built outside of the saturated domestic market, with the U.S. representing the most favored location. American companies, for their part, are leading the way in de-emphasizing volume expansion and concentrating on profitability. In both Europe and America investment is being keyed to rationalizing and improving processes rather than seeking spurious economies by adding to capacity. As the aura of pioneering derring-do fades, a more realistic sense of management and marketing is emerging.

Muted optimism prevails

Despite the robust performance by the German chemical industry so far this year, some executives see potential brakes on a continuation of vigorous expansion. For one thing, huge overcapacity in the European chemical industry is still a fact of life. Hence, any slippage in demand could put heavy downward pressure on prices. More ominously, the first half surge in sales is largely attributable to customer buildups in inventories in anticipation that petrochemical prices will follow oil prices still higher; and demand from this quarter could end as suddenly as it began. As a consequence, forecasts have taken a cautious turn.

Says Bayer chairman Herbert Gruenewald: "We're not at all happy about the petrochemical cost-price wave. It disturbs the steady advance that had been built up during the second half of 1978." Rolf Sammett, chairman of Hoechst, adds his note of caution. "The sales increase is doubtless only in part attributable to rising consumption," he observes. "In a few fields of activity we're observing a considerable degree of stockpiling, which is understandable in a period of rising prices." And BASF chairman Matthias Seefelder concludes soberly that "the buildup of inventories by our customers, which had an added input in the first month of the year, could exert the opposite effect in the second half."

Price action has become particularly painful in two areas. As a result of U.S. legislation banning lead additives in gasoline, the United States has



Top left: Mobay Chemical Corp.'s Baytown, Texas facility; bottom left: Mobay's headquarters in Pittsburgh, Pa.

virtually ceased exporting aromatics to Europe and is even making purchases on the Rotterdam spot market, which has led to a sharp jump in European prices for this essential raw material.

The price of naptha, basically unrefined gasoline and used as a raw material for plastics, has more than doubled since early 1978. Shortages of gasoline in the U.S. have diverted naptha supplies to gasoline for shipment across the Atlantic. This has inevitably led to strained relationships in Germany between the oil and chemical companies. The presidents of the Big Three complain that they are now paying more for naptha than the pretax gas price at filling stations. They anticipate that price increases for energy and feedstocks will cost them an extra $200—250 million this year and express deep reservation that they will be able to pass on these increases in full.

At that, current prices have risen from a low base to begin with. Last year fibers were being sold below cost and bulk plastics accounted for even bigger losses than fibers. Since late 1978, though, fiber prices have risen about 20 percent and plastics even more—40-60 percent depending on type. Worse still, petrochemical executives warn that cost-price escalation will not abate in the near future, explaining that their price increases have been posted only with a substantial lag behind rises in their own costs.

Up to now, availability has been merely a factor of price. "You can get feedstocks if you pay enough", says Bayer's Gruenewald. The boom in sales has been sustained very largely by vigorous demand, led by the booming construction and automotive sectors and a reviving textile industry. Clearly, a slowdown in the West German economy later this year would imperil this domestic source of demand.

Even in the face of these impending problems, optimism reigns in chemical board rooms. BASF's Seefelder believes that "the economic upswing will continue in Germany. Our European subsidiaries, too, expect an overall improvement over 1978." Gruenewald tentatively forecasts that his firm will emerge from 1979 with a 5 percent real increase in sales, assuming a 5 percent rise in prices.

Some analysts view such forecasts as highly conservative. The German chemical industry achieved an aggregate 12 percent boost in revenues in the first quarter of 1979, and the pace seems to have been maintained through July. Thus, even in the unlikely event that it registers zero sales growth in the second half, this would still work out to a very respectable rise of 6 percent for all of 1979.

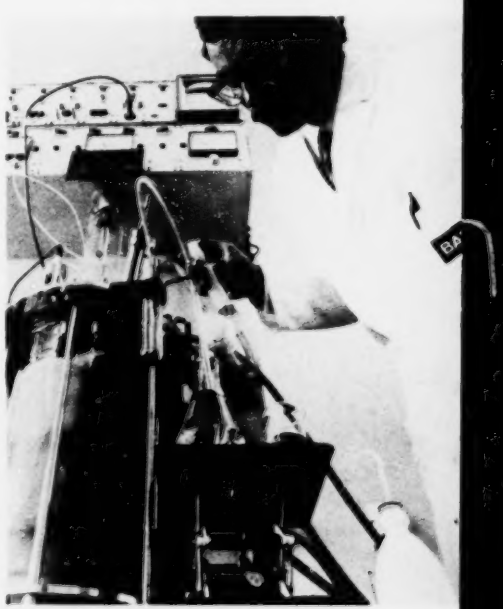
German chemical companies attribute burgeoning profits this year primarily to higher capacity utilization, which currently stands at an average of about 80 percent. However, it seems unlikely that German firms will expand domestic capacity to any appreciable extent, even if operating ratios approach the optimum level. Faced with widespread overcapacity throughout Europe and the volatility of earnings, German chemicals have targeted most future projects to overseas locations where they plan to replace exports with on-the-spot production.

This trend has been noticeable for some time, though domestic spending has continued at a brisk pace. But expansion projects have become the exception, with most new facilities devoted to modernization, unclogging bottlenecks, and manufacturing new products fresh from the laboratories.

Outlays for domestic plants have stood at almost $3 billion since 1970—except for recession-induced drops in 1972 and 1973—and that level of spending will continue this year. However, given the better than 60 percent increase in chemical equipment prices since 1970, real expenditures have fallen off considerably.

Dangerous export exposure

The industry's heavy dependence on exports has transformed a traditional strength into a mixed blessing, with an 18 percent share of the West's total foreign chemical sales in 1977,



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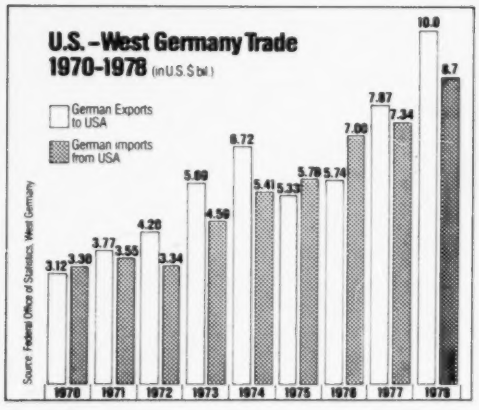

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An Interview with Dr. Heinrich J. Klein, President of Jaener Glaswerk Schott & Gen.

The following interview with Dr. Heinrich J. Klein, President and CEO, marketing and sales of Jenaer Glaswerk Schott + Gen. was held during a recent visit of Dr. Klein to the U.S. on the occasion of the Schott Group's 1979 Western Hemisphere Marketing Meeting.

Founded almost 100 years ago in Jena, the headquarters of the Schott Group have been located in Mainz since 1952. The Group has 36 factories in 10 countries and employs approximately 14,000 people, worldwide. The U.S. represents the most important foreign market for the Schott Group: in 1978 the Group had specialty glass sales of over $50 million in the U.S. Worldwide, the Schott Group has annual sales in excess of $500 million. Today, Schott maintains two factories in the U.S.: one in Duryea, Pa., the other in South Vineland, N.J. (a joint venture with Owens-Illinois, producing specialty glass for the chemical industry). Two sales offices in the U.S. are responsible for marketing the Group's wide variety of specialty and crystal glass products.

GATN: Your company is quite well-established in the United States. What were the original reasons for securing a foothold in the U.S.?

Klein: The Schott Group has been directly represented in the United States since 1963 when it opened its sales office in New York. In 1969 we initiated our U.S. production activities with the establishment of Schott Optical Glass, Inc. in Duryea, Pennsylvania. Foremost among the reasons for our direct involvement in this country were that a) Schott was (and still is) the second-largest specialty glass manufacturer in the world, and that b) the U.S. has the world's largest specialty glass market. This in itself originally represented an attractive prospect for our company to expand its worldwide operations.

GATN: How did your company originally go about preparing itself for its U.S. involvement? Did it make use of American business consultants? Did it have U.S. bankers or financial experts working on its behalf?

Klein: The initial basis for establishment of the sales office was directly related to market conditions prevailing at that time. The decision to set up a production facility resulted most directly from a U.S. government initiative. The government wanted to have a domestic manufacturing facility for products related to national security which it had previously been receiving from Schott in Europe. In response to this development, we at Schott consulted American experts, American banks and American governmental offices in making preparations for the founding of a U.S. production operation. The outcome was the opening of Schott Optical in 1967.

GATN: In which areas of Schott's U.S. operations was it most difficult to adapt to the U.S. business environment? Was it difficult to develop American marketing techniques? Were labor relations a problem? Did the product line have to be adjusted to better fit the U.S. market?

Klein: Surprisingly, we encountered very few major difficulties as we expanded our direct involvement in the U.S. market. This without doubt, is at least in part attributable to the fact that we had had many years of close business contact with the U.S. prior to 1967. This enabled us to become sufficiently familiar with the U.S. market and with the American business mentality. We can also honestly say that we encountered little difficulty in developing marketing strategies for the U.S.

Insofar as labor relations are concerned, I would have to say that in comparison to labor and trade union relations in Germany, America is a much easier country in which to operate. Union and wage issues in the U.S. are far more straightforward than they are in Germany.

As concerns the availability of skilled labor, we were fortunate to be located in an industrial zone in Penn-

sylvania. Since the Scranton area was formerly a major coal mining region, the availability of skilled manpower has been quite adequate. Obviously, most workers in this area were not specifically trained for glass production or specialty glass manufacturing, yet many workers who had been employed in the mines did have some basic skills that were easily adaptable to our particular needs. Thus on the whole, we would have to say that we have been generally satisfied with the people manning our factory at Duryea.

GATN: Since 1963, when Schott first opened a sales office in New York, economic and market conditions in the U.S. have changed considerably. How have these changes affected the specialty glass business, and how has Schott adapted to the new developments?

Klein: Looking back to 1963, there is indeed no doubt that Germany and the U.S. have experienced many important and often divergent economic changes. As far as Schott is concerned, the most significant development in the past 15 years has been the change in the value of the dollar in foreign markets. If you consider that since 1970 the value of the D-Mark has increased by 70 percent against the dollar, it becomes clear that the tendency to export from Germany to the U.S. has diminished. For Schott, this has undoubtedly been the most influential factor in determining the course of our involvement in the U.S.

GATN: What are the most rapidly growing sectors of your company's business in the U.S. Which sectors would you like to see doing better?

Klein: We are of course quite satisfied with our successes in the sector of optical glass, laser glass technology for nuclear fusion, and ophthalmic glass, i.e. the areas in which we have been involved in a production capacity in the U.S. However we have also enjoyed favorable results in our exports from Germany to the U.S. of glass for the electrical and electronics industries. These sectors are becoming increasingly important for us, and we hope to improve our position in the U.S. market for appliance products and heat resistant glass as well.

GATN: Can you list three or four of your principal American competitors?

Klein: As far as specialty glass is concerned, there are really no more than a handfull of manufacturers in the entire world. The largest producer of specialty glass is Corning Glass Works. Schott follows in second place and then come such companies as Owens-Illinois, Philips, Nippon Electric Glass, Asahi Glass, RCA. In the U.S., the important competitors include Corning, Owens-Illinois, RCA. Schott itself commands 12–14 percent of the world market for specialty glass.

GATN: At what point did Schott decide to expand from just a sales operation to a full-fledged U.S.-based manufacturer of specialty glass? What were the reasons for the expansion and do you foresee additional manufacturing operations for your company in the United States?

Klein: As I mentioned earlier, the initial impetus derived from the desire of the U.S. government to produce optical glass domestically. In other sectors, there was a fairly normal development of the need to manufacture inside the U.S. For example, once one begins to manufacture optical glass, the technology can easily be adapted to the production of glass for spectacles. In the area of process systems, we reached a cooperative agreement with our partner, Owens-Illinois, to expand our activities, since in this highly technological field it was necessary to utilize an existing production facility. Although there are no firm plans at present to expand our production activities in the U.S., there is no doubt that in principle, this would be very desirable for Schott.

GATN: Having had several years of direct experience in the U.S. market for a number of years, what basic advice would you offer to German businesses currently investigating the prospects of entering the U.S. market?

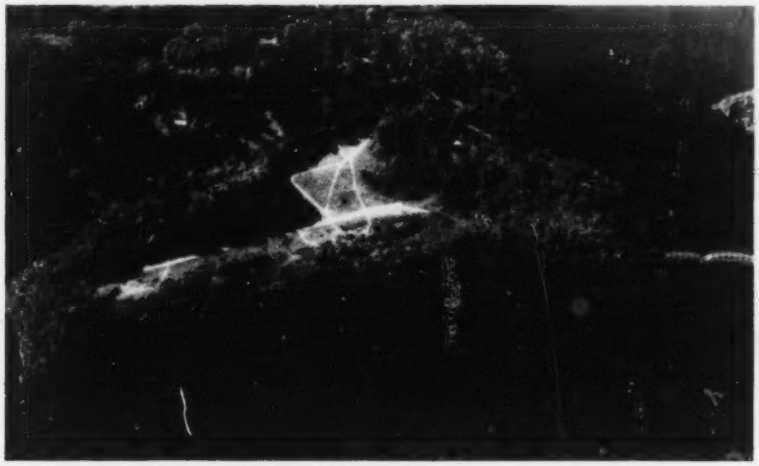
Klein: There is one thing in particular which I consider quite important: when a foreign firm decides to establish itself in the U.S., it inevitably will be approached by a wide array of promotional organizations. It is all too easy for a foreign firm to become overwhelmed by the barrage of information from abroad and to thereby encounter great difficulty in making a clear decision about whether to settle in say, northeast Pennsylvania or Texas, or somewhere else. When a foreign corporation comes to the U.S. it is advisable to contact an independent consultant who can objectively advise decision-makers about the various investment incentives available in the U.S. It is impossible to gather all of the necessary information from abroad and to sensibly sort it out. Without the help of such an independent consultant, there is always the danger that the voluminous information and aggressive promotional initiatives of U.S. economic development offices will cause a potential investor to give up his plans out of confused frustration. There are so many regions and counties competing for the investment capital of German firms that the endless flood of promotial information can all but force a small or medium-sized company to back off altogether.

GATN: What changes or improvements would you like to see carried out in order to further improve the prospects of growth in America?

Klein: The prospects for further expansion do require certain changes in strategy, and one of these would be the improvement of the exchange of experiences between our U.S. and German operations. This is likely to be achieved by stepping up the exchange of management personnel between Germany and the U.S. so that a more fruitful two-way avenue for management resources may be achieved. We *have* succeeded in developing a very productive technology exchange system, so that the improvement of two-way transfer in other sectors will be a major aim for our company in coming years. Indeed, we believe that maximum efficiency in a foreign market can only be attained if true familiarity with both markets on the part of people in decision-making positions can be achieved.

GATN: How would you evaluate the present economic and business climate in the U.S. in general, and how does it affect your company's business specifically? Do you see an improvement or a worsening of economic stability and business potential in the near future?

Klein: Let us talk for a moment about energy. There is no doubt that energy will be a prime topic of debate in the U.S. for some time. But if we compare the energy situation in the U.S. with that in Germany it is first of all obvious that Amzrica enjoys a distinct advantage in its considerably less expensive energy resources. A few examples: electric power costs on the average 25 percent less in the U.S. than in Germany; oil, and especially gasoline, is approximately 50 percent less expensive in the U.S. than in the Federal Republic. Thus, we in Europe still see America's energy problems in a less dramatic light, because they do not appear as pressing to us from the point of view of pricing. Inflation of course is a serious problem and we do feel directly affected by this as a company manufacturing within the U.S. Insofar as our exports are concerned, we are only indirectly affected by U.S. inflation which has its most direct impact in the balance of trade, and which has a subsequent influence on currency ratios. ▪



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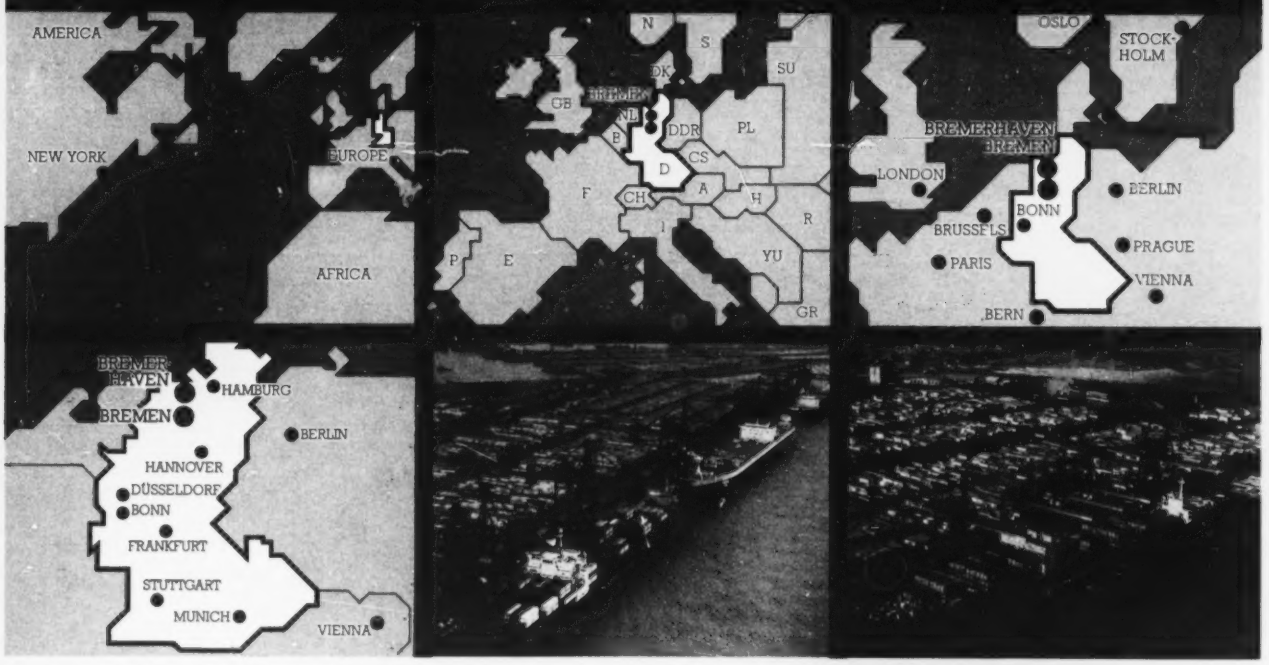

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German-American Economic Review in Figures

	Federal Republic of Germany					United States				
	1977	1978	1979			1977	1978	1979		
			Apr.	May	June			Apr.	May	June
FOREIGN TRADE (in mil.$)										
Imports	101,457	121,822	11,953	13,101	12,774	147,644	172,020	16,036	16,342	16,937
Exports	118,070	142,296	13,701	14,151	13,691	120,107	143,570	13,883	13,862	15,038
Balance on merchandise trade	16,613	20,474	1,748	1,050	917	−27,537	−28,450	−2,153	−2,480	−1,899
U.S.-GERMAN TRADE (in mil.$)										
U.S. imports from Germany	7,868	10,042	1,030	890	972	7,215	9,961	982	939	1,003
(+)(−) % from previous year	37.1	27.6	29.2	30.2	1.8	29.0	38.1	12.2	23.8	28.5
U.S. exports to Germany	7,338	8,726	842	909	832	5,823	6,815	633	664	—
(+)(−) % from previous year	4.9	18.9	15.1	45.3	5.2	4.2	17.0	19.9	39. 2	—
Balance on U.S.-German trade	530	1,316	188	−19	140	−1,393	−3,146	−349	−275	—
INDUSTRIAL PRODUCTION										
(+)(−) % from previous year	2.7	2.6	6.9	2.7	—	5.6	5.8	4.8	5.5	4.5
Iron and steel	−4.8	5.8	3.8	8.7	—	−1.4	9.5	3.9	—	—
Machines, exc. elec.	−0.3	0.2	8.5	2.2	—	7.3	7.5	8.4	8.4	7.4
Electrical machinery and equipment	7.3	1.1	1.6	−3.7	—	7.8	8.7	7.4	9.0	7.7
Chemicals	0.4	5.2	10.2	6.7	—	6.7	5.5	8.7	8.2	—
Road motor vehicles	8.4	2.3	21.4	8.8	—	13.5	5.4	−9.4	4.4	—
Textiles	−1.5	−1.1	−1.8	2.0	—	0.5	2.1	3.2	3.3	—
Apparel	−4.1	−3.2	−1.9	10.3	—	1.6	1.7	—	—	—
LABOR MARKET										
Population (in mil.)	61.4	61.3	—	—	—	216.8	218.5	219.9	—	—
Civilian labor force (in 1000)	25,044	25,209	—	—	—	97,401	100,420	102,111	102,247	102,528
Unemployed (in 1000)	1,030	993	875	775	763	6,855	6,047	5,937	5,929	5,774
Unemployment rate (in %)	4.5	4.4	3.8	3.4	3.3	7.0	6.0	5.8	5.8	5.6
Gross hourly wages in manufacturing (in DM or $)	11.27	11.88	—	—	—	5.68	6.17	6.56	6.63	6.66
(+)(−) % from previous year	7.4	5.4	—	—	—	8.8	8.6	8.4	9.0	8.8
PRICES (+)(−) % from previous year										
Consumer Price Index	3.9	2.6	3.5	3.7	3.9	6.5	7.7	10.4	10.8	10.9
Producer prices for ind. products	2.6	1.2	4.1	4.2	4.7	7.0	7.3	10.9	11.4	11.9
CURRENCY EXCHANGE RATES (avg.)										
Value of $1.00 in DM	2.3217	2.0084	1.8938	1.9076	1.8828					
Value of DM 1.00 in $						0.4308	0.4987	0.5274	0.5242	0.5308

Sources: Statistisches Bundesamt; Deutsche Bundesbank; Bundesministerium für Wirtschaft; U.S. Department of Commerce; U.S. Department of Labor; Federal Reserve System

	1977	1978	1978-1979				1977	1978	1978-1979			
			II	III	IV	I			II	III	IV	I
NATIONAL ACCOUNTS												
Gross National Product at current prices (in bil. DM or $)	1,194	1,283	1,246	1,312	1,403	1,257	1,887	2,107	2,104	2,160	2,235	2,292
(+)(−) % from previous year, real terms	2.6	3.4	4.0	4.0	3.7	3.8	4.9	4.0	5.3	4.7	5.3	4.6
Balance on current account (in mil. DM or $)	9,831	17,584	3,736	426	9,061	2,613	−14,092	−13,895	−3,426	−3,227	−313	157
Monetary reserves (in mil. $)	39,737	53,875	40,712	44,641	53,883	53,141	19,390	19,580	19,190	19,570	19,580	22,420
Direct investment, cumulative at period end (in mil. DM or $)												
Direct investment abroad	52,142	58,193	54,865	—	58,193	—	148,782	—	—	—	—	—
—German investment in the U.S.	6,705	8,591	7,428	—	8,591	—						
—U.S. investment in Germany							11,003	—	—	—	—	—
Foreign direct investment	49,253	53,326	50,556	—	53,326	—	34,071	—	—	—	—	—
—U.S. investment in Germany	19,049	19,923	19,257	—	19,923	—						
—German investment in the U.S.							2,494	—	—	—	—	—

Sources: Statistisches Bundesamt; Deutsche Bundesbank; Bundesministerium für Wirtschaft; International Monetary Fund; U.S. Department of Commerce; U.S. Department of Labor; Federal Reserve System

Money's Worth

Useful information for Business and Travel in Germany

1. The Export Documentation Handbook provides a checklist of documents needed for shipments to every overseas market. Data in this useful volume covers country language, metric system requirements, commercial invoice and marking and labeling requirements as well as import license regulations. In addition, the latest edition of the Handbook contains an "Overseas Postal Rates and Documentation Chart for U.S. Exporters" and a report on "Export Marks Simplification".

The Handbook, compiled by the editors of the Exporters' Encyclopaedia, may be obtained by writing to Exporters' Encyclopaedia, P.O. Box 3224, Church St. Station, New York, N.Y. 10008. Prices are: $35.00 for subscribers to Exporters' Encyclopaedia Services, and $50.00 for non-subscribers.

2. Thomas Cook, one of the world's largest travel organizations, has concluded a worldwide agreement with Hertz Corporation under which Thomas Cook Travelers Cheque customers may obtain emergency refund service at Hertz stations throughout the world. This agreement permits users of Thomas Cook Travelers Cheques outside North America to report a loss or theft even after normal business hours. Many of the approximately 2,000 Hertz locations around the world will provide up to $200, or the equivalent in foreign currency, to clients in distress.

3. The Bundesstelle Fuer Aussenhandelsinformation in Cologne has prepared a market survey on the U.S. paper and cardboard industry. The report may be useful to U.S. or foreign firms requiring information about this market. It contains data on sales, production and foreign trade in the U.S. paper and cardboard industry and includes forecasts of developments in the major sectors of the industry. The study is priced at DM 7 and may be ordered from the Bundesstelle fuer Aussenhandelsinformation, Postfach 108007, D-5000 Koeln 1, West Germany. Be sure to include the order code: MI-B/913.

4. A New English/German dictionary of Legal, Commercial and Political Terms was recently introduced in the U.S. The Dietl/Moss/Lorenz Dictionary contains over 60,000 legal, economic and political terms along with explanatory notes for terms with no German or English equivalent. Further information may be obtained by contacting the U.S. publisher: Matthew Bender & Co., 235 E. 45th Street, New York, N.Y. 10017, Tel.: (212) 661-5050.

5. Rapaport Travel in New York City is an independent travel agency specializing in charter and regular flights to Germany and the rest of Europe. Mr. Joseph Rapaport can assist travelers to Europe wishing to save money, to find particularly economical ways of getting to and traveling in Europe. He can be reached at 320 West 87th Street, New York, N.Y. 10024, Tel. (212) 873-8753.

6. Travelers planning to drive in Germany should keep in mind that the price of gasoline recently rose above the DM1/ liter level. This translates into a cost of over $2.00 a gallon.

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Sales/Administration: American, (32), single, degreed, seeks position in international sales or administration. Speaks fluent German; has ability in other European and Middle Eastern languages. Experienced as mfg. supv., sales eng., and sales mgr. Steel, fluid power, handling systems, but open to new fields. Will relocate for right opportunity. Contact: German American Trade News, Box 576, 666 Fifth Avenue, New York, NY 10019.

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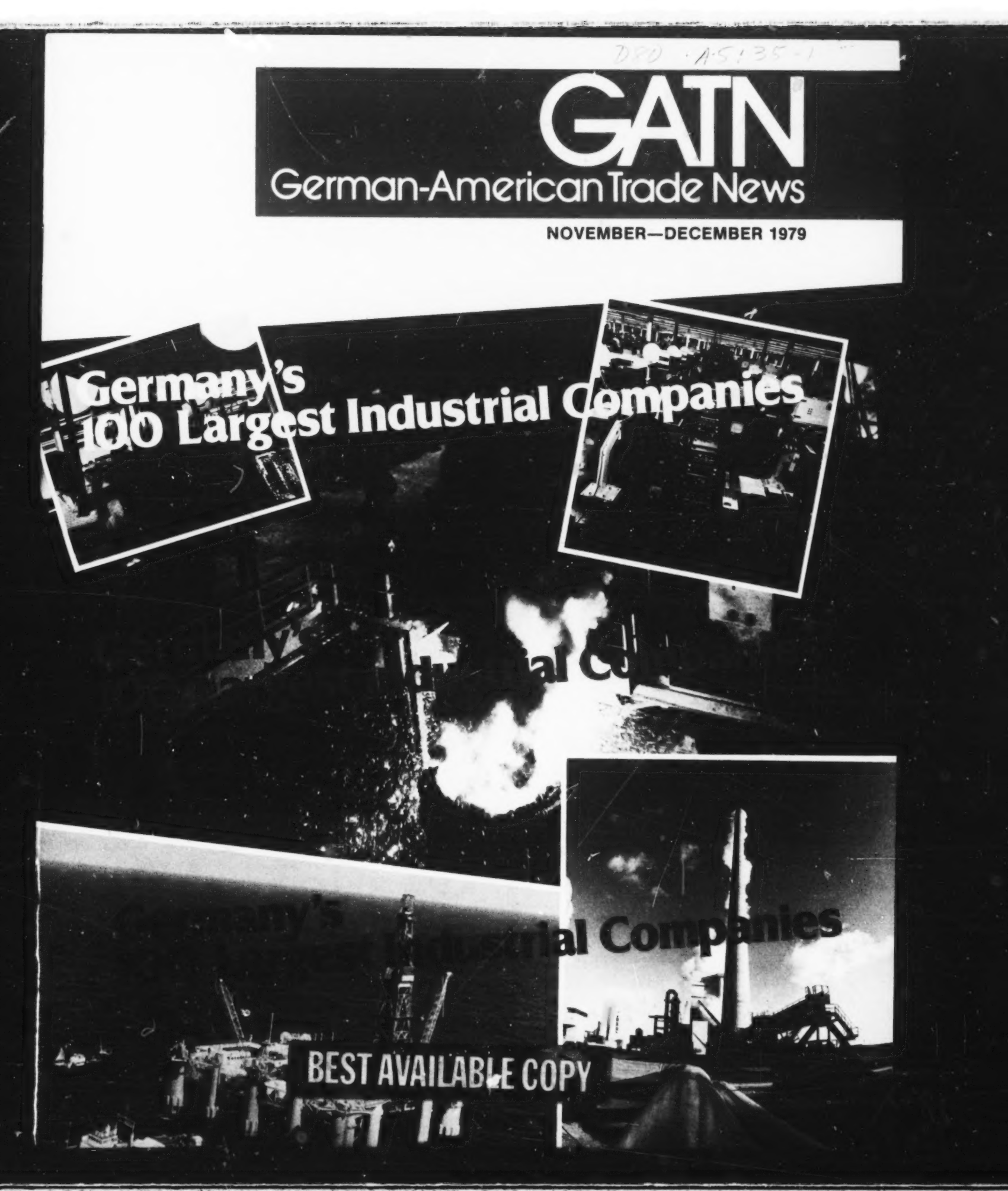

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240D

Why choose a Diesel from a line of cars when you can choose a Mercedes-Benz from a line of Diesels?

For 1980, Mercedes-Benz builds 3 Diesel sedans, a Diesel station wagon and a Diesel coupe, 3 different Diesel engines and 2 transmissions—and no other car maker does. Such choice is only one benefit of a Diesel tradition 44 years long, and growing timelier by the day.

Take your time as you carefully examine the unique line of Mercedes-Benz Diesels. Should it be the extraordinarily efficient four-cylinder 240 D Sedan? Or is the potent five-cylinder 300 D Sedan more to your liking? Many minds and hearts have been captured by the charm and utility of the 300 TD Station Wagon. Those with a taste for the exclusive are much taken with the limited edition 300 CD Coupe. And in a class by itself is the turbocharged performance Diesel—the 300 SD.

A delicious dilemma. Choose the one that precisely fits your needs. Then prepare to reap the engineering dividends that set Mercedes-Benz Diesels apart from all other Diesels, from all other cars.

More power for 1980

Note that those dividends are enriched for 1980. New pistons, new camshafts and improved precombustion chamber design—fitted to various engines—help give the five Mercedes-Benz Diesels a strong *performance* boost, without spoiling their famous fuel efficiency.

For 1980, even cold weather performance is improved. An ingenious "pin-type" start device can get a cold engine going—even on a 32°F day—in five to seven seconds, and at 5°F, in about eleven seconds. With this timely advance, Diesel cold-weather starting pains should now be a thing of the past.

Economy a thing of the present

The 1980 Mercedes-Benz 240 D Sedan is a solid 1.5-ton automobile that happens to outperform every other compact, mid-size and large car on the road today in fuel mileage as listed in the official EPA fuel economy information for 1980, published Sept. 7, 1979. Figures for every Mercedes-Benz Diesel, in fact, may seem almost too good to be true for such capable, civilized automobiles. But the fuel estimates below suggest that a car needn't be undersized or underpowered to deliver heart-warming fuel economy. It simply needs to be efficiently engineered.

1980 EPA fuel economy estimates

Model	Est. mpg:	Est. range:
240 D (Man)	28	481.6 mi.
240 D (Auto)	26	447.2 mi.
300 D	23	485.3 mi.
300 CD	23	485.3 mi.
300 TD	23	425.5 mi.
300 SD	24	520.8 mi.

Compare this to other cars. Your mileage may differ depending on speed, weather conditions and trip length. California estimates vary.

Efficient performance

Each Mercedes-Benz Diesel for 1980 comes fitted with technical features that stamp it more as a performance than a mere economy car: fully independent suspension, for instance. Four-wheel disc brakes. Front and rear anti-sway bars. Gas-pressurized shock absorbers. Recirculating-ball steering.

On rain-slicked highways, on rutted back roads, in mountain bends—that dry list comes vividly alive. Economy needn't mean a drab driving life; first and foremost, a Mercedes-Benz Diesel is a driver's car.

Above all, safety

It is also a safety-conscious car. There are 120 safety features between you and the road, every one standard equipment—whether Federal law requires them or not. The fact that more than half are Mercedes-Benz requirements reflects forty-four years of fanatic devotion to the subject of safety.

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With every new Mercedes-Benz comes a dual commitment: to provide unparalleled engineering in its cars and to provide unparalleled service—through the unstinting efforts of over 400 authorized Mercedes-Benz dealers across the United States.

Last but not least

When you think about the Mercedes-Benz Diesel for 1980, you might do well to think ahead to 1983 and consider: historically, a three-year-old Mercedes-Benz Diesel has been shown to retain nearly 80% of its value. A resale performance no domestic luxury car can even approach.

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VOL. 33 NO. 6 NOVEMBER/DECEMBER 1979

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GATN
German-American Trade News

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The **German American Trade News** is published bi-monthly by the German American Chamber of Commerce, Inc., 666 Fifth Avenue, New York, New York 10019, and also in Chicago, Houston, Los Angeles, San Francisco, and Washington, D.C. Subscriptions in the United States and Canada $5 per year, $12 for 3 years. Other countries $7 and $18 respectively. Overseas airmail $15 for one year. Single copy price $1. For change of address, please give old as well as new address, including zip code (if possible, enclose address label from magazine). Allow one month for change.

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Produced by World Composition Services,Inc.,432 Park Ave. So.,New York, N.Y. 10016. Controlled circulation paid at New York, N.Y.

Chamber Commentary

Smoot-Hawley re-examined

The Fiftieth Anniversary of the great Wall Street "Crash of '29" was appropriately attended by a fanfare of articles and editorials. No wonder. "Black Tuesday" was the market equivalent of a war that, in one cataclysmic day, wiped out many fortunes as well as soaring hopes in the U.S. for a self-sustaining era of prosperity, and ushered in the great Depression. In the minds of many who experienced that day, it remains the most vivid of memories, and a much younger generation has inherited a patrimony of photographs recording the hopelessness in the faces of the time.

Without a doubt, an orgy of speculation had rendered the stock market dangerously vulnerable to a sell-off. But many economists of the period nominated as the underlying culprit the law of markets, i.e., a surplus in the supply of goods or a deficiency in the demand for goods. With classical theory conveniently discarded, the Keynesians stepped in to fill the vacuum. Years later the monetarist school of economics came to equal prominence.

The consequence was the rising influence of two schools of economic thought, one liberal and the other conservative, each arguing from different viewpoints that government had the responsibility to "manage" the economy. A less theoretical explanation has recently been offered by Jude Wanniski, a former editor on *The Wall Street Journal*. Wanniski calls our attention to the "efficient markets theory", formulated at the University of Chicago in the 1960's, which suggests that markets have the ability to analyze new information almost instantaneously and to adjust prices accordingly.

Using this concept as a point of departure, he identifies the Smoot-Hawley Tariff Act of 1930 as the actual villain. Incorporating a huge increase in the duties on some 20,000 commodities, Smoot-Hawley incited America's outraged trading partners to retaliate with tariff walls of their own. According to Wanniski, the stock market concluded by early September 1929, when the Senate returned from summer recess, that passage was likely and began a steady decline. By October 21, the opponents of protectionism appeared to have been conclusively routed and the slide accelerated. One week later, passage was virtually assured and the Dow Jones industrial average collapsed by 69 points in two days. In other words, the Crash coincided, accidently or not, with the breakthrough of Smoot-Hawley tariff hikes. In light of this, Wanniski argues that the traditional explanation overlooks the global spontaneity of the Crash, tidily fitting modern demand theories into an inductive framework.

It then follows, according to this interpretation, that the classical law of markets was violated, not vitiated, by an artificial impediment to commerce imposed by government in the form of a tariff barrier. In effect, the stock market was discounting the negative implications in a market already overburdened by rampant speculation.

There are no neat explanations for complex phenomena: it usually takes more than one trigger to start a war. But, up to now, Smoot-Hawley has generally been regarded merely as an ill-advised aggravation to the ensuing Depression. In the face of daily temptations to protect a little here and there, Mr. Wanniski's new interpretation should offer some food for thought.

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Trade Fairs

The German American Chamber of Commerce has compiled a listing of the major trade shows to be held in Germany in 1980. The list includes all events of international significance in the Federal Republic's prominent trade fair cities. Further information on individual fairs may be obtained from the Chamber.

Fair Schedule 1980

BERLIN	International Green Week	January 25–February 3
	14th International Tourism-Exchange—ITB Berlin	March 1–7
	BERLINER INTERCHIC Main Sampling	April 12–16 October 11–15
	International Pharmaceutical and Medico-Technical Exhibition	May 27–31
	18th Overseas Import Fair "Partners for Progress"	August 27–31
COLOGNE	International Furniture Fair	January 15–20
	ISM—International Sweets and Biscuits Fair	January 28–February 1
	DOMOTECHNICA—International Fair for Household Appliances, Fittings and Components	February 6–9
	International Housewares Fair	February 7–10
	International Hardware Fair	February 9–12
	International Men's Fashion Week	February 22–24 August 29–31
	International Trade Fair CHILDREN and YOUNG PEOPLE	March 7–9 October 10–12
	OPTICA International Trade Fair for Optics and Opthalmic	May 10–13
	photokina World's Fair of Photography	September 12–18
	IFMA International Bicycle and Motor Cycle Exhibition	September 20–23
	SPOGA International Trade Fair for Sports Goods, Camping Equipment and Garden Furniture	September 27–30
	International Garden Trade Fair	September 28–30
	ORGATECHNIK International Office Trade Fair	October 21–26
DUESSELDORF	Boot International Boat and Watersports Show	January 19–27
	ENVITEC International Trade Fair and Congress Progress in Environmental Technology	February 11–15
	IGEDO International Fashion Fair *with IGEDO-DESSOUS Trade Fair for Lingerie, Foundations and Swimwear	March 9–12 April 20–24 September 7–10* October 26–30
	GDS International Footwear Show	March 22–24 September 20–22
	METAV '80 Exhibition of Metal Processing	March 27–31
	iba International Bakery Exhibition	June 7–15
	hifi International High Fidelity Exhibition with Festival	August 22–28
	GLAS International Trade Fair for the Glass Industry	September 25–28
	INTERKAMA International Congress with Trade Fair for Instrumentation and Automation	October 9–15

	IGB International Trade Fair and Congress Industrial Cleaning-Factory Hygiene Building and Factory Maintenance	October 16–18
	HOGATEC International Trade Fair for Hotels, Restaurants and Catering	November 8–12
	MEDICA International Congress and Trade Fair—Diagnostica-Therapeutica-Technica	November 19–22
ESSEN	SECURITY '80 International Security Exhibition with Congress	September 15–19
FRANKFURT	HEIMTEXTIL International Trade Fair for Home and Household Textiles	January 9–13
	International Trade Fair for Musical Accessories, Musical Instruments and Publishers of Music	February 23–27
	Frankfurt International Fair	March 2–6 August 31–September 3
	International Fur Fair	April 16–20
	INTERSTOFF	May 13–16 November 4–7
	IFFA International Meat Trade Fair	June 1–8
	AUTOMECHANIKA International Trade Fair for Equipment of Motor Car Workshops and Service Stations	September 18–23
	Book Fair	October 8–13
FRIEDRICHSHAFEN	INTERBOOT International Boat Show of Lake Constanc	September 27–October 5
HAMBURG	InternorGa International Trade Exhibition for Hotels, Catering, Bakeries and Confectioners	March 14–19
	IOPPEC International Oil Pollution Prevention Exhibition and Conference	September 23–27
	Exhibition and Congress Ship, Machinery, Marine, Technology International	September 23–27
	EMTEC Trade Days European Marine Trade Exhibition	October 16–17
	German International Boat Show	October 18–26
	IDS International Dental Show	September 2–6
	Trade Exhibition on the Occasion of the 7th World Congress of Anaesthesiologists	September 14–19
	SOLARTECHNIK International Exhibition on Solar Energy	November 19–22
HANNOVER	Hanover Fair	April 18–24
	ILA International Aerospace Exhibition	April 24–May 1
MUNICH	BAU International Trade Exhibition for Building Materials, Building Systems, Building Renovation	January 16–22
	INHORGENTA International Trade Fair for Watches, Clocks, Jewelry, Precious Stones and Silverware with their Manufacturing Equipment	February 9–12
	ISPO International Sports Equipment Fair	February 21–24 August 28–31
	MODE-WOCHE-MUENCHEN International Fashion Fair	March 23–27 October 5–9
	BAUMA International Trade Fair for Construction Equipment and Building Material Machines	April 10–16
	ANALYTICA International Exhibition for Biochemical and Instrumental Analysis	April 29–May 2
	IKOFA International Trade Fair of the Food Industry	September 19–24
	ELECTRONICA International Trade Fair for Components and Assemblies in Electronics	November 6–12
NUREMBURG	International Toy Fair	February 2–8
OFFENBACH	International Leather Goods Fair	March 1–4 April 26–29 October 19–21

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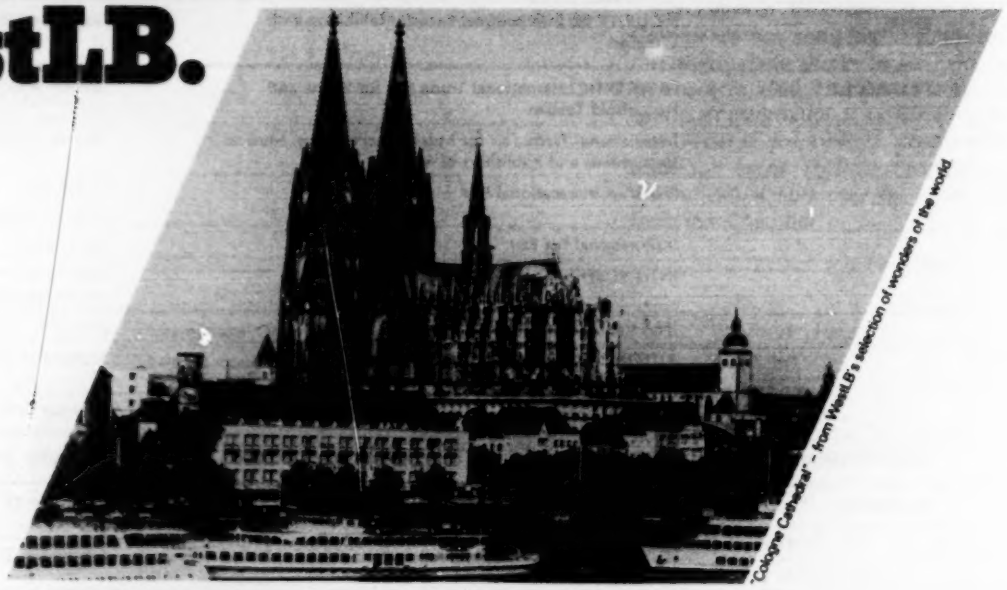

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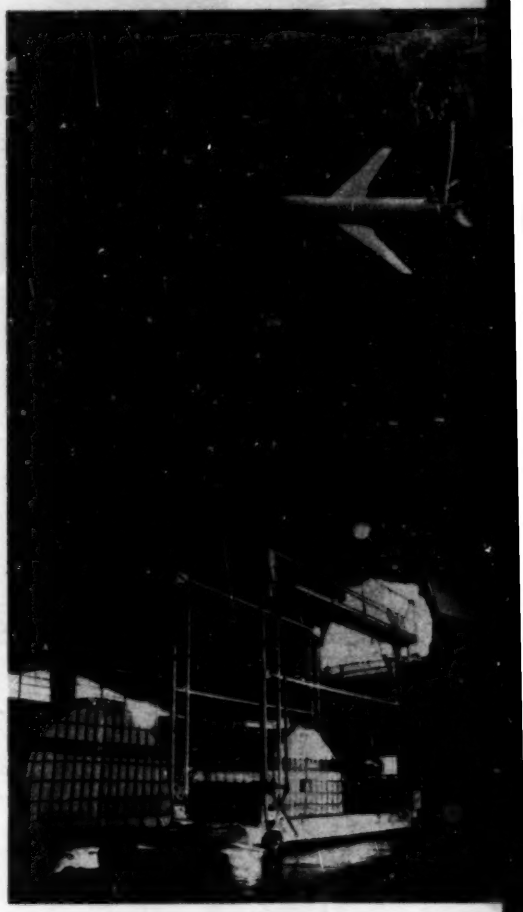
Air Cargo on the Rise in U.S.-German Trade



While the sheer volume of merchandise traded between the United States and Germany has captured the attention of observers for many years, the question of how the seemingly limitless quantities of goods are transported to and from the two countries is rarely posed. Although shipping companies have been the leading beneficiaries of the continued expansion of bilateral trade, it is without doubt that several major international airlines, too, have enjoyed substantial growth in demand for their freight transport facilities.

An Adolescent Industry

Air cargo is a relatively young industry. In fact, the transport of cargo across the Atlantic by air was not a truly viable commercial proposition until the mid-1960's. And today air freight is still often referred to as a "sleeping giant", although many air cargo industry executives claim that the colossus is by now fully awake.

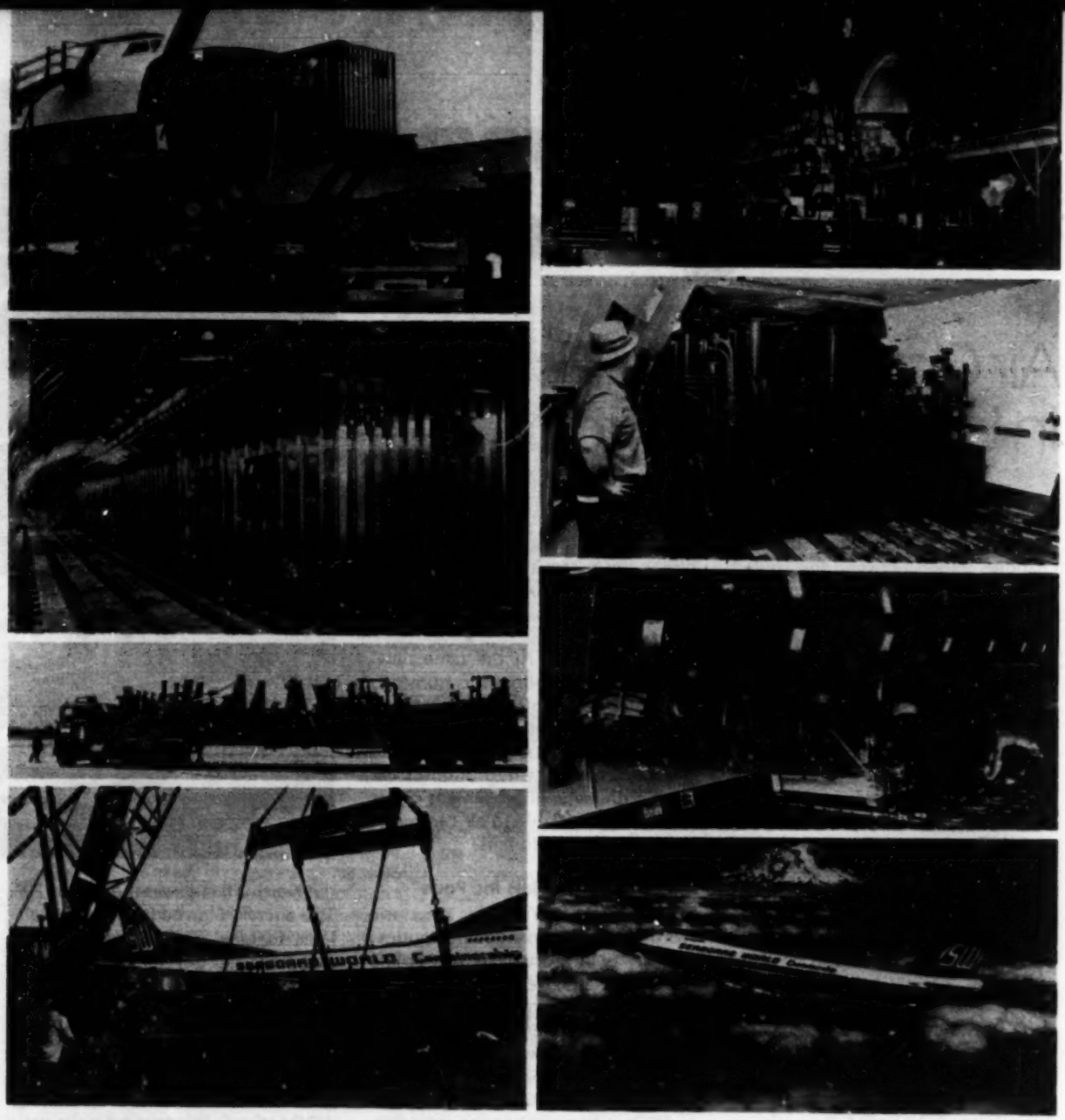
The evidence would seem to bear this assertion out. In 1978, U.S. foreign trade amounted to $315.7 billion. Of this, $43.959 billion worth of merchandise, or 13.9 percent, was shipped by air. This compares with a total of $82.6 billion in U.S. foreign trade in 1970, of which $8.34 billion worth was transported by air. And with regard to trade between the U.S. and the Federal Republic, a similar trend is evident. In 1970, when two-way trade between those two countries totaled $5.87 billion in value, some $1.12 billion worth of merchandise, or 19.1 percent of the total was transported by air. By 1978, the value of U.S.-German trade had jumped to $16.78 billion. Of this, some $3.9 billion worth of goods, or 23.3 percent of the total crossed the Atlantic in airplanes. These data alone are clear evidence of the rapid growth in the use of aircraft in U.S. foreign commercial activities. At the same time, however, it is important to note that this trend is not solely attributable to the rapid growth of international trade per se. A key factor in the recent burgeoning of air cargo business has been a dramatic improvement of the technology available to air cargo carriers and their customers.

Equipment Sets the Pace

By the early 1950's, flights across the North Atlantic had become routine, and it was in those years that airline companies discovered that carrying freight could contribute significantly to the achievement of large economies. Lufthansa, whose post-war history began in 1955, put its first all-cargo aircraft—a DC-3—into service in 1957. Subsequent to the introduction of the DC-3 cargo plane, Lufthansa, along with several other major international airlines, began using converted passenger Super Constellations on its freight routes. These aircraft provided the additional capacity needed in those days to respond to an accelerating rate of growth in demand for air freight service.

The next major technological breakthrough for air cargo lines came with the advent of the jet in the mid-1960's. In that period, air cargo business was growing at annual rates of as much as 30 percent, and carriers found themselves seeking additional ways to maximize their available cargo space. The first all-cargo jet used on the North Atlantic was the Boeing 707. This aircraft allowed international airlines to take advantage of what by that time had developed into a full-fledged and rapidly expanding industry, by providing space which in other jet aircraft was occupied by passengers.

In 1972, Boeing came out with the first wide-body all-cargo airplane, the 747 freighter. This marked a dramatic new turn in the air cargo business, since it allowed for shipments of unprecedented volume, and enabled the airlines to further diversify their merchandise shipments. Lufthansa was the first airline to use the 747 freighter. Its first scheduled all-cargo 747 flight crossed the North Atlantic from Frankfurt to New York on August 19, 1972. In the face of widespeard industry scepticism, Lufthansa proceeded to prove its theory that the air cargo industry was substantial enough, and promised future growth sufficient to justify the operation of an all-cargo plane of that size. A full two years went by before the German airline was joined by the next carrier—Seaboard World Airlines—in



operating the all-cargo 747 on the North Atlantic.

The introduction of the 747 freighter also marked the beginning of what is referred to in the industry as "intermodalism"—that is, the direct link between two transportation modes (in this case aircraft and trucks). The advent of containers in air cargo transport streamlined the service by eliminating the cumbersome process of loading and re-loading cargo into and out of so-called "igloo" containers which could not be directly mounted onto trucks. Nowadays, many of the containers used to fill the fuselage of the 747 freighter are the same twenty-foot units stacked aboard oceangoing freighters.

In the 1970's the air cargo industry benefited substantially from rapidly expanding international trade, and from shifting commercial patterns which put greater emphasis on the element of time for shippers concerned about their competitiveness in foreign markets. By this time, air cargo had become a reliable and efficient mode of transport, and shippers were able to successfully advertise speedy and efficient delivery.

An Impressive Record of Growth

While industry experts are not anxious to make predictions about the future of air cargo, most are optimistic about the potential for encouraging rates of growth in the coming decade. According to a survey of some 60 airlines, made earlier this year by Air Transport World magazine, air cargo traffic is expected to grow at a compounded annual rate of 10 percent over the next five years. By 1983, the level of traffic should, according to the survey respondents, be 62.7 percent above the 1978 total. This would compare with the far more modest 2

percent annual compounded rate of growth posted in the years 1974-1978. On the North Atlantic, which today has one of the world's most heavily traveled air cargo routes, improvements in marketing, technology and service will undoubtedly continue to weigh heavily in what promises to be an increasingly competitive market.

Lufthansa, which in 1974 demonstrated the importance it attaches to its air cargo business by constructing a $16.2 million cargo terminal at John F. Kennedy International Airport, last year made another important move by replacing its first 747 freighter with a new second generation 747, featuring more space and greater fuel efficiency.

Greater Heights on the U.S.-German Route

The air cargo route between the United States and Germany is as busy eastbound as it is westbound, and statistics show that there are a few key commodities which are increasingly being shipped by air in both directions. The established leader is heavy machinery. Last year, some $638.8 million worth of machinery and transport equipment was flown from Germany to the U.S. In the opposite direction, a total of $1.53 billion worth of American machinery and transport equipment touched down at German airports. (Interestingly, this value was twice that of machinery and transport equipment shipped to Germany by vessel in 1978. Other commodities of growing importance to air cargo carriers operating on the U.S.-German route include chemicals, raw materials and scientific instruments.

The international air cargo industry, despite the lively demand it has enjoyed in recent years, is by no means without its problems. The chief obstacle to achieving maximum economy is perhaps the current disarray in the pricing structure. Although the International Air Transport Association has attempted to make order out of apparent pricing chaos, this has been hindered by the withdrawal of several major members and by abrupt increases in the price of fuel.

Yet on the whole, the experience of recent years would seem to verify the contention of industry executives like Karl-Heinz Neumeister, Lufthansa's General Manager of Cargo and Mail, who refutes the "sleeping giant" concept by asserting that "... the air cargo business is not only already awake, it is vibrant and healthy and the potential for expansion is great."

As to the role of air cargo in the course of German-American trade, there appears no reason why Mr. Neumeister's prediction should not be realized. Today there are three major international airlines competing for air cargo business on the U.S.-German route. Seaboard World Airlines, Pan Am and Lufthansa all have a solid position in the market, a position which has expanded encouragingly throughout the 1970's and one which each of the three expects will experience continued growth in the 1980's. Indeed, if the average 16.9 percent annual increases in bilateral trade posted in the last few years continue into the 1980's, the giant may not even have time for a catnap.

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